COMMUNITY DEVELOPMENT BLOCK GRANTS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

THE GAO REPORT, "THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM CAN BE MORE EFFECTIVE IN REVITALIZING THE NATION'S CITIES"

JUNE 11, 1981

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COMMUNITY DEVELOPMENT BLOCK GRANTS

THURSDAY, JUNE 11, 1981

U.S. SENATE,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met at 9:15 a.m., in room 3302, Dirksen Senate Office Building, Hon. Dave Durenberger (chairman of the subcommittee) presiding.

Present: Senators Durenberger and Danforth.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator DURENBERGER. Good morning. The hearing will come to order.

This hearing was called to examine the General Accounting Office report entitled, "The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities." [1] This report was issued on April 30, 1981. It was the intention of the subcommittee, in calling these hearings, to use the results of this GAO study to explore the question of block grants in general.

You have copies of my opening statement. I will not cover it in full, but will concentrate on the CDBG issues to illustrate the future of block grants. Block grants are not intended to be revenue sharing as proposed by the Nixon administration sometime ago. Block grants will replace the grant programs which were not intended to equalize or compensate. The purpose of the CDBG program is to replace these grant programs. It was to be assigned to persons with low and moderate incomes, mostly in inner-city neighborhoods. The Senate has always insisted on this purpose being preserved in these programs.

In order to provide flexibility to local governments and still preserve the Federal purpose in a program, it is necessary to change the allocation method from discretionary grants which are made by Federal departments, to formula grants with entitled jurisdictions. That modification is reflected in the CDBG block grant.

No one can write a formula that entirely preserves the stated Federal purpose for community development. The entitled jurisdictions are much larger than the intended neighborhoods. The failure in the formula's ability to target was recognized in the first 2 years of CDBG. It resulted in more targeting through HUD regulations and the 1977 reauthorization.

[1] See p. 240.

Everyone does not agree that there is a Federal purpose in community development. In fact, I believe that the solution to "community development" problems will more likely come from another source.

Programs like CDBG treat the symptoms of fiscal distress in cities. Fiscal distress results from a separation between the wealth that a city creates and the places where that wealth is invested. If the mayors could reach out to the tax base of the suburbs, they would not face this kind of distress. Federal treatment would not be necessary.

There are also communities in the Nation where metropolitan government works to share the problems of housing, employment and development with all communities within a region.

In fact, these structural solutions, which are available in most—if not all—of our major cities, would, in the long run, be a better solution to the community development problems than programs like CDBG. The long run may be considerably shorter if the Federal Government got out of the community development business.

So long as the Federal Government is involved in community development—so long as we claim that there is a Federal purpose here—we should make sure that the Federal funds provided go to that purpose and not to community development generally.

This is to suggest that "community development" is a very broad function of government. The Federal purpose in community development is much narrower than the broad function. The community development projects, in which the Federal Government has no interest, are not illegitimate by that designation. Money spent on them is not "wasted." They are simply local—no more, no less. By the same argument, everything that is community development is not a Federal purpose. Everything that is community development should not be supported by Federal funds.

To conclude, we are mistaken if we broaden the Federal purpose in community development in the name of more discretion to local officials. In fact, we should greatly narrow the Federal role. The structural solution which is available to the States and their cities is far more promising. Paradoxically, the Federal Government should be even more explicit in targeting the funds it expends. This can, and should, be done in conjunction with regional government planning.

For these reasons it is imperative that we continue to have a prior review system. We should continue the best aspects of the present system while looking for ways to ease the burden of the application process. It is to this end, and to gain further input from those most directly affected by the block grant process, that we are holding this hearing today.

Senator Sasser has a prepared statement which we will insert in the record immediately following mine.

[The prepared statement of Senator Durenberger and the opening statement of Senator Sasser follow:]

PREPARED STATEMENT OF SENATOR DURENBERGER

The hearing will come to order.

This hearing was called to examine the General Accounting Office report entitled "The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities". This report was issued on April 30, 1981. It was the intention of the Subcommittee in calling these hearings to use the results of this GAO study to explore the question of block grants in general.

As everyone here this morning knows, the President has made seven block grant proposals as part of his Economic Recovery Program. Over the past two decades, the Congress has authorized several block grants including creation of CDBG in 1974. One of President Reagan's new block grants would affect the structure of CDBG by combining it with the Urban Development Action Grant and reforming the targeting and reporting planning requirements attached to the grant. In the latter respect, the new CDBG would have similarities to the other block grants proposed by the President in the areas of education, health care, social services and emergency assistance.

It, therefore, seemed a good idea to call a hearing on the GAO report as the conclusions of that study were in contradiction to the direction of the new block grants. We have been compelled to delay this hearing twice—once because witnesses from the Administration were not available and once because legislation to reauthorize CDBG was scheduled for consideration on the Senate floor simultaneous with the proposed hour of the hearing. The second delay was most unfortunate, but I want the witnesses and our guests at the hearing to know that Senate action on CDBG has not diminished our interest in the issues raised by the GAO report or our resolve to consider carefully the structure of the new block grants.

Speaking for myself, I do not consider Senate action on S. 1197 or the defeat of the amendment by Senator Proxmire to that bill as a final choice on the future structure of CDBG. Rather, it is one step in a long process which began with the categorical grants for community development and urban renewal in the 1960's. I am going to take a few moments of this hearing to state my perspective on the appropriate role for the Federal Government in community development.

In a narrow sense, Title I of S. 1197 only makes technical changes in the CDBG program. It changes HUD's prior approval role on the CDBG plans of communities. It reduces the level of citizen participation previously mandated by the Federal Government. It also allows the States a potential role in the small cities grant program.

However, in the larger perspective, it sends a clear signal to HUD and the cities that the Senate is backing off its long-term commitment to target these funds primarily for the benefit of low- and moderate-income facilities and individuals. In the early 1970's, when the Administration was proposing special revenue sharing for community development, the Senate wanted to require that 80 percent of the money be used to directly benefit low- and moderate-income families. S. 1197 comtemplates much more local discretion and much less Federal targeting of the funds.

Local discretion is a valuable principle and it is important that the Federal Government encourage it where appropriate. I am glad to see that the President is committed to moving ahead in this area. General Revenue Sharing is a good example of a program that provides almost complete freedom in deciding how Federal funds may be used. GRS deserves the support of the Senate. There are two good reasons to support it.

First, the Federal Government, in a variety of programs and regulations, puts heavy mandates on State and local governments. These mandates are expensive to implement. They reflect Federal policies and purposes, and the Federal Government ought to provide the funds to carry them out.

Second, not every community has an adequate fiscal capacity to deal with the problems it faces. And certainly the capacity is not equally distributed across States and communities. There is a justifiable Federal purpose in a program like GRS to equalize capacity to some extent. And the GRS formula tries to accomplish that objective by recognizing tax capacity and tax effort explicitly, although one may argue about the success or failure of that formula.

So it is appropriate to have a program like GRS that sends Federal funds to States and cities with complete latitude provided to Governors and mayors, legislatures, commissions and councils to spend on programs that are recognized, for whatever reason, as appropriate endeavors of local government.

But this commitment to GRS and even a commitment to reduce the regulatory burden on State and local governments, does not mean that every program should be structured like General Revenue Sharing.

CDBG was not intended by the Congress to be General Revenue Sharing or even special revenue sharing as the Nixon Administration proposed as part of the process that created this block grant. Rather, it was designed to replace categorical grant programs where the Federal purpose was not equalization or compensation. The purpose of the programs replaced was very explicit. They

were designed to assist persons of low and moderate incomes break the cycle of poverty that existed primarily in inner-city neighborhoods and was due in part to the physical condition of those neighborhoods. The Senate has always insisted that this basic Federal purpose be preserved in this program.

Part of the process of providing flexibility to local governments while preserving the Federal purpose in a program is to change the method of allocation from discretionary grants made by Federal departments to formula grants with entitled jurisdictions. That modification is reflected in the Community Development Block Grant. But it should be clear that no one can write a formula that preserves entirely the defined Federal purpose for community development. The entitled jurisdictions are much larger than the neighborhoods that we intend to benefit. This failure in the ability of the formula to target was recognized in the first two years of CDBG. It resulted in more targeting through HUD regulations and the reauthorization in 1977.

This is not to say that all agree that there is a Federal purpose in community development. In fact, I am one who believes that the solution to "community development" problems would be much more likely from another source. Programs like CDBG treat the symptoms of fiscal distress in cities that result from a separation between the wealth that a city creates and the places where that wealth is invested. If the mayors could reach out to the tax base of the suburbs, they would not face this kind of distress and Federal treatment would not be necessary. There are also communities in the Nation where metropolitan government works to share the problems of housing, employment and development with all communities within a region. In fact, these structural solutions which are available in most if not all of our major cities would, in the long run, be a better solution to the community development problems than programs like CDBG. And the long run might be considerably shorter if the Federal Government got out of the community development business.

But so long as the Federal Government is involved in community development, so long as we claim that there is a Federal purpose here, we ought to be sure that the Federal funds provided go to that purpose and not to community development generally. This is to suggest that "community development" is a very broad function of government, but that the Federal purpose in community development is much narrower than the broad function. Those community development projects in which the Federal Government has no interest are not by that designation illegitimate. Money spent on them is not "wasted". They are simply local, no more, no less. And by the same argument, not everything that is community development is a Federal purpose and not everything that is community development should be supported by Federal funds.

To conclude, I think that we are mistaken if, in the name of more discretion to local officials, we broaden the Federal purpose in community development. In fact, as I have said, I think we should greatly narrow the Federal role because the structural solution that is available to the States and their cities is far more promising. Paradoxically, this belief that the Federal role should be narrowed leads me to believe that the Federal Government should be even more explicit in targeting those funds it will be expending. This can and should be done in conjunction with regional government planning.

For these reasons, I think it is imperative that we find a way to continue to have a prior review system. I am hopeful that we can continue the best aspects of the present system while finding ways to ease the burden of the application process. Toward that end and in order to gain further input from those most directly affected by the block grant process, we are holding this hearing today.

Opening Statement of Senator Sasser

The Community Development Block Grant program has been in existence since 1974. In that time, the program has financed a broad range of activities and services designed to revitalize the nation's cities.

This block grant program has several positive features. It builds local capacity to run housing programs and it expands the opportunity for local discretion in setting priorities. And it encourages greater control by the elected officials, the mayors and the members of local legislative bodies, who are ultimately responsible to the community members about how the money is spent.

In my home state of Tennessee, approximately $65 million in funds for Community Development programs are channeled to local jurisdictions annually. For many of the smaller communities in my state (most Tennessee cities are under 50,000 in population) the CDBG program provides the only outside funding to improve housing and upgrade street and sewer facilities. In the larger cities, too, there are numerous examples of neighborhoods improved with Community Development funds.

Many of these are not the fancy, highly visible projects. In fact, most of the money spent in Tennessee has been targeted to the rehabilitation of single family homes. But to the family with dangerous faulty wiring in their home or effluent in their back yards, the improvements made possible through the use of CDBG funds do not need "ruffles and flourishes" to give them importance.

Recently, the General Accounting Office issued a report titled: "The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities."

The report revealed that, because of the lack of visibility for many CDBG improvements, it is hard to measure the impact they actually have on the revitalization of a city. The GAO also found that the funds weren't always distributed to projects to aid those persons in greatest need.

This report certainly raises some legitimate concerns which need to be explored in a Congressional hearing. Particularly so, since S. 1197, the housing legislation approved by the Senate last week makes some revisions in program requirements that could result in less targeting of funds to low and moderate income groups.

I voted with my distinguished colleague, Senator William Proxmire, on his amendment to retain the existing law with respect to community development applications and the distribution of funds. However, this proposal was rejected on the Senate floor.

The relaxation of targeting requirements provided in S. 1197 is in disagreement with the revelations of the GAO report that CDBG funds sometimes are spent for questionable purposes.

In the rush to reduce government regulations and lower the overhead for running this program, we must not lose sight of our responsibility for Congressional oversight. Hopefully, another opportunity will be found for the Congress to recognize in the law the increased potential for fraud, waste and abuse cited in the GAO report and overlooked in the housing bill just passed by the Senate.

I have long been a proponent of greater use of block grants to "clean up" the burgeoning and overburdened federal grant system. Both in the last Congress and in this one, I have sponsored bills to promote more widespread consolidation of grant programs. I am pleased to note that S. 807, The Federal Assistance Improvement Act, which incorporates legislation I introduced earlier this year, has been approved by the Governmental Affairs Committee and is now ready for floor action.

Care was taken in drafting this legislation to see that consolidations of grant programs achieved under its provisions would not override the targeting of funds to the beneficiaries specified by Congress.

Changing the reporting, targeting and planning requirements attached to the CDBG program has implications for the design of other block grants now before Congress in the areas of education, health care, social services and emergency assistance. That is why it is so important to explore the contradictions between loosening these block grant requirements and the conclusions of the General Accounting Office study.

I commend Chairman Durenberger for holding these timely hearings to explore the tradeoffs between greater flexibility in state and local administration on one hand and preserving the targeting of Federal money toward national priorities on the other. I believe that a balance can be struck after a careful consideration of all the issues involved.

Senator DURENBERGER. Our first witness today will be Henry Eschwege, Director of the Community and Economic Development Division, GAO. We have taken testimony from GAO several times this year. This is, however, our first discussion with the Community and Economic Development Division.

Mr. Eschwege, you may introduce the gentlemen with you this morning. We will then proceed with your opening statement. The GAO report will be made a part of the record of the hearing.

TESTIMONY OF HENRY ESCHWEGE, DIRECTOR, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY STEVE WOZNY AND CHARLES BARCHOK, GAO

Mr. ESCHWEGE. Thank you, Mr. Chairman. On my left is Steve Wozny, our Group Director, and on my right is Charles Barchok. They have both worked and dealt with this problem of block grants at HUD.

We appreciate the opportunity to be here today to discuss our April 30, 1981, report entitled, "The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities."[1] The objective was to assess three important aspects of the Community Development Block Grant program: One, the degree to which funds were being targeted on strategic geographic areas, high priority activities, and low- and moderate-income people; two, the effectiveness of the block grant rehabilitation program; and, three, the quality of HUD's monitoring system.

The Community Development Block Grant program allows cities to undertake a wide variety of activities to provide decent housing, jobs, and neighborhoods for their residents. Funds can be used for acquisition and disposition of property, street improvements, water and sewer facilities, rehabilitation of private properties, public services and parks, playgrounds, and other recreational facilities.

The program's legislative history shows that the Congress intended communities to have flexibility in designing their individual block grant programs within broad national objectives. In essence, the act called for more Federal involvement than a "revenue sharing" approach but less than had existed under the categorical programs which the block grant program replaced.

In view of the discretion afforded grantees in implementing their Community Development Block Grant programs, HUD's influence or control over the uses made of block grant funds by grantees is limited. As a result, grantee funding decisions, program designs, and controls over fund usage may not always be consistent with Federal perceptions on how to best meet urban revitalization needs. For example, we found that:

Although targeting is improving, some cities spread funds too widely, thus diluting the impact they might have on the cities' revitalization. Rehabilitation funds were spent for low-priority items, and were not always provided to persons in the greatest need. And, at times, there was insufficient information to determine whether funds were properly spent for eligibile activities.

As part of our review we judgmentally selected 15 grantees to obtain geographic dispersion and a good mix of such variables as the amount of block grant funds received and spent; population size; degree of distress; whether HUD had placed conditions on the community's grants for any reason; and the amount of funds spent for

[1] See p. 240.

certain activities, such as rehabilitation and public works. I might add, HUD officials generally agreed that we had a good mix of entitlement grantees.

Although not intended to be statistically representative, nor capable of being projected across the whole program, we believe that the activities of the communities reviewed present a good cross section of the activities being conducted with block grant funds. Our findings are further supported in reports issued by HUD's Inspector General, HUD's sixth annual report on the block grant program, and in reports prepared by various research organizations.

HUD has taken several initiatives to encourage better targeting by communities, such as urging grantees to concentrate funds in neighborhood strategy areas and for the primary benefit of low- and moderate-income persons. These initiatives have produced positive results, but local community development and HUD officials told us they would like to see even better targeting.

HUD and local community development officials told us there are pressures at the city level to spread funds around cities rather than to concentrate them in distinct distressed areas where significant improvements can be made in a reasonable period of time. HUD's sixth annual report on the block grant program stated that at the local level, requests from community leaders, along with the lobbying of neighborhood citizen groups, often resulted in strong pressure to disperse all or most of a community's block grant funds to a large number of neighborhoods.

Compounding the geographic dispersion problem, the broad range of eligible activities has resulted in cities funding items and activities that, in the view of HUD and city community development officials, have a questionable relationship to cities' revitalization needs. For example, public services such as child care, health services, police services, education, and counseling are eligible for funding under the Community Development Block Grant program. On a national level, the trend in public service expenditures from block grant funds has been downward. In the fifth program year public service expenditures were about 9 percent of all block grant funds. Yet some grantees still use over 20 percent of their block grant funds for public services. Many local community development officials told us that these services—amounting to about $240 million annually—are of the lowest priority in urban revitalization.

Over 25 percent of all Community Development Block Grant funds nationwide are used for residential housing rehabilitation. The need for rehabilitation far exceeds community goals and achievements. For example, over 14,000 housing units in one city needed rehabilitation, but only 377 units had been completed, and only 425 more were planned for rehabilitation over a 3-year period.

Some communities were using funds for lower priority items and for persons not in the greatest need. Examples of work performed include replacing functional appliances, constructing patios and sundecks, and installing dishwashers and trash compactors. We also observed widely varying income eligibility requirements, financing techniques, and maximums allowed for rehabilitation work.

Communities provide block grant-supported rehabilitation funds to their residents through grants and loans. Income eligibility limits

for the programs ranged from strict to none at all. In one city 31 out of the last 200 loans made went to residents whose annual income exceeded $30,000.

We also found a wide range in the extent and types of rehabilitation work. For example, assistance financed by grants ranged from $1,500 to $15,000; and work financed by loans ranged from $6,000 to $35,000. We recognize that some differences are attributable to varying rehabilitation needs and costs.

In a nationwide review of block grant rehabilitation activities, HUD's Inspector General identified other problems, including payments to contractors for work not done, poor workmanship, and failure to perform or document initial and final inspections.

Responding to past reports of weaknesses in monitoring of block grant recipients, HUD has modified its grantee monitoring system. These changes appear promising in solving past problems, but it is too early to fully determine their effect.

Grantees' controls over expenditures of block grant funds are an essential prerequisite to preventing fraud, abuse, and waste. Although it was not the focus of our review, we noted numerous examples where information and controls were inadequate to assure that program expenditures were made for eligible items and were adequately supported or justified. HUD's Inspector General has identified significant problems in reviewing block grant fund expenditures. However, he needs to address specifically the underlying causes of such problems and recommend actions to correct systematic weaknesses.

The Community Development Block Grant program was designed to provide grantees with flexibility in operating their own programs. The proper degree of local flexibility as opposed to Federal limitations is subject to considerable debate. Clearly there are tradeoffs involved. There is a delicate balance between the proper degree of local discretion and Federal controls. While greater local discretion or autonomy enables local governments to define and set priorities for their use of Federal funds based on the particular needs of each community, such discretion could inhibit the achievement of the national objective of revitalizing the Nation's urban communities.

Our review of the block grant program raised questions about the degree of flexibility grantees should have in operating their block grant programs. Our report does not suggest that there be excessive Federal intervention in the program's day-to-day operations, but it does raise issues in specific areas which we believe the Congress may wish to consider. Specifically, these issues involve:

The desirability of having all grantees concentrate their block grant funds in distressed geographic areas small enough so that visible improvements can be achieved in a reasonable time period.

Retaining the broad list of activities currently eligible, or instead, having grantees focus activities on the cities' most urgent revitalization needs.

Continuing to allow grantees to decide who can receive block grant supported rehabilitation or specifying income eligibility requirements programwide.

Finally, whether there is a need to limit eligible rehabilitation work to that which is essential to restore a housing unit to a safe, decent,

and sanitary condition, or whether other items of lesser priority should continue to be eligible.

Any changes along these lines could of course be imposed by legislative mandate. However, in doing so the Congress would need to make a tradeoff between the objective of flexibility for local officials to set local priorities, and the objective of assuring that funds are used to meet national priorities.

This concludes my statement. We will be glad to respond to your questions.

Senator DURENBERGER. I will start by asking a couple of questions. There has been lots of reporting on the results of your study. A certain amount of judgment is articulated in the report and your statement. Some uses of CDBG funds are more important than others—housing rehab, for example—when you look at it in terms of community development. Do these judgments reflect your view of congressional intent?

Mr. ESCHWEGE. Well, Senator, we are talking, first of all, about a program that is existing now, while having in mind, at the same time, some of the actions taken by the Senate committee recently. We tried to look at this program in terms of legislative intent, HUD's own regulations, and how they intend to implement the legislation. We also talked to local officials.

We did not try to inject ourselves into congressional policy to the point of saying, "You ought to emphasize one over the other," though one might read our report as coming close to that. What we really had in mind was to bring to your attention how the program works in selected communities and then suggest, in our recommendations—which are really just for consideration by the Congress—some of the things that the Congress may want to pay attention to in terms of emphasis and in terms of how much flexibility you would want to allow to grantees. But GAO, itself, is not trying to inject itself and make policy for the Congress.

Senator DURENBERGER. I understand that. You have to be somewhat judgmental, however. Particularly when you point out—as you did at the close of your statement—some of the specific issues which should be addressed. Is that a compilation of your view of congressional intent as reflected in reactions from HUD officials, local officials, or citizens? In the end, is it basically your judgment, based on all those observations?

Mr. ESCHWEGE. Our judgment comes in when we try to audit against the legislation and the policies and procedures set up by HUD. What we are telling the Congress in this report is that since this was intended, we are not quite sure whether or not you are getting there in terms of the amount of rehabilitation going on. We are not quite sure that the emphasis is more on the physical revitalization of the community as opposed to providing public services, which are also available in many cases from other agencies.

Senator DURENBERGER. Let me deal with one of the judgments which comes from several sources. Some feel that an important criteria by which the program should be evaluated is more visible improvement. Why should Congress think that more concentrated visible improvement is more important than an across-the-board prevention of decay in the city?

Mr. ESCHWEGE. Well, as we read the legislation, there were provisions in there—it was not a requirement, but an expression—for targeting of low- and moderate-income persons. It also has provisions for funding in strategic areas. So we deducted from that that the Congress wanted to zero in on neighborhoods that needed revitalization. The funds are scarce. Therefore we thought, in order to make any type of an impact, the Congress was not intending to dilute them to the point where everybody gets a little bit. When funds are diluted, the visibility of progress is not there.

Senator DURENBERGER. One problem in reading a report that advocates more visible improvement is the theory that the more visible effect makes it easier to see if your dollars are better spent. That does not necessarily mean we are doing the best possible job. When you attack a problem across the board, a lot of relatively invisible improvements may be taking place. Are you making some judgment—based upon what these people say—that we should be looking at visible improvement?

Mr. ESCHWEGE. There are some improvements which are more easily visible than others; however, we look on this program as being more of a physical revitalization. When something is physical, it is easier to evaluate progress made. However, if you ask me that in terms of public services, whether it be through a recreational program or what, it is very difficult to measure. I am not sure anyone has gotten a handle on that one. In terms of rehabilitation, we can easily tell you there are 14,000 houses or units to be rehabilitated and that we have a long way to go because we have only done so many.

Senator DURENBERGER. Mr. Barchok?

Mr. BARCHOK. As part of our process, we asked cities to rank the eligible activities as to their importance in meeting community development objectives. By and large, public services, the things that don't have visible effects—were ranked very low by most of them. Rehabilitation was ranked very high. Those expressions by local community development officials played a large part in forming the judgments we are talking about here.

Senator DURENBERGER. In the context of fraud and abuse, let me ask you some questions about waste. Are you saying that the funds are wasted when not used on high-priority items, regardless of whether the expenditure achieves its goal or not?

Mr. ESCHWEGE. No, I would not say they are wasted. We are talking here in terms of priorities. We are saying that it may be more important to make sure first that a house is safe, decent, and sanitary before we put in patios or parking spaces.

Senator DURENBERGER. Is there waste when some money goes to a community which is not in as bad of a shape as another community?

Typically, in Minnesota, we have a dispute between a central city and a neighborhood group within that city as to how the money is being used and who is benefiting. The neighborhood group says the funds should be more concentrated. The city thinks they are doing a good job. Right next to that city is an urban community. If the group ever got out to the county and saw how the money was being spent, they would be rather disappointed.

Did you make comparisons like this in your study. If so, do you have a comment on the counties' use of the money as opposed to the urban centers' use?

Mr. ESCHWEGE. There are poor counties as well.

Let me just say this, getting back to realities, we don't want to make the judgment. We are not unaware of the political considerations which are involved here. We point out that everyone who has talked to us has said there are pressures there.

I don't know how to get around that. I am not sure GAO has found the solution yet, but everyone wants something. It all depends on how you want to structure a block grant program, whether you want to be closer to a revenue sharing-kind of program—which would then be all right to get something with very few restrictions—or do you want to be closer to a categorical program, saying only these categories of people or these categories of structures should be receiving the assistance.

Senator DURENBERGER. For every program we have there are people with particular needs. Does your report say that local officials are telling you that a certain number of expenditures are really unjustified?

Mr. ESCHWEGE. They are saying, "There are a lot of pressures on us to disperse these funds widely." When we asked them—as Mr. Barchok mentioned—to rank the things they would like to do, public services came out low on the list. Yet in some places it still was over 20 percent. The national average went down to about 9 percent, which is roughly equal to what the bill provides in the Senate now, which is 10 percent.

So, it is one thing to want to reorganize your priorities. The other thing is what you can do in reality.

Senator DURENBERGER. In your opinion will S. 1197, which we passed last week, lead to more or less waste—as we have been describing and I have been implying in my questions? [1] Or won't it make any difference?

Mr. ESCHWEGE. Well, based on a quick analysis of S. 1197, it is my view that there are some relaxations of requirements, certainly in the other areas of public services. You are putting a limit on public services—a 10-percent limit—which in one way restricts communities. On the other hand, as we read the old legislation, public services were to be targeted in strategic areas, or NSAs, whereas the proposed legislation no longer targets these public services just to those areas. So on the one hand you have a restriction on the total amount, but you seem to have a relaxation of the requirement that they be targeted to certain areas.

Now, from the administrative point of view, the streamlining of the application process makes things a lot easier for HUD. All they need to do, as I understand it now, is to get certifications. Any targeting that might be done would have to be done through objectives described by the community. HUD could, however, after the fact, review the certification; and, as I understand it, if they find the certifications were incorrect, they could adjust future grants to allow for that.

So it is, overall I think, a loosening of some of the requirements.

Senator DURENBERGER. Senator Danforth?

Senator DANFORTH. Thank you; I do not have any questions for Mr. Eschwege.

[1] See p. 130 for a copy of S. 1197.

Senator DURENBERGER. Did you make any investigation to see if the locality's tax capacity had any relationship to the amount of targeting that took place? In particular, what about targeting by those 15 communities in your report?

Mr. ESCHWEGE. No.

Senator DURENBERGER. Would that be appropriate?

Mr. ESCHWEGE. It might be appropriate, except I am not aware that it is a requirement under legislation. It might be nice to know, if you wanted to provide for some kind of legislation; but it is not one of the objectives of the program?

Senator DURENBERGER. No, but if you are going to evaluate how local officials react to the program's mandates, other available resources will determine how much targeting, or how much spreading, they are able to do.

Mr. ESCHWEGE. No, we have not done that.

Senator DURENBERGER. Does the heavy mandate for citizen participation contribute to targeting or spreading the money around?

Mr. ESCHWEGE. I can not talk about that based on our review; however, I have the feeling, based on past reviews, that it is a healthy thing to have citizen participation. If the local political process works, then that is a form of making reasonably sure that there be some targeting of funds. I see a slight difference in the proposed legislation from what has been on the books up until now.

Senator DURENBERGER. Does that slight difference contribute to the health of citizen participation?

Mr. ESCHWEGE. It probably detracts from it.

Senator DURENBERGER. When you speak of the "health" of citizen participation, are you saying that the result is more targeted to the need?

Mr. ESCHWEGE. We have not measured that in this review; but again, I would say that the democratic process, if there is good citizen participation, would have to be paid attention to.

Senator DURENBERGER. Does the prior approval law for HUD leave less targeting?

Mr. ESCHWEGE. Again, answering in the abstract, I would say the prior application and approval process should help targeting more—in other words, it is more restrictive and should help targeting more than going in after the fact.

Senator DURENBERGER. Does it help that we have prior approval here?

Mr. BARCHOK. In the early years of the program, as we said in the report, 35 percent of the grantees sampled in one study were funding over 90 percent of their census tracts. Since 1978, when HUD revised their regulations we have seen improvement. For example, in HUD's sixth annual report, it shows 75 percent of them have strategy areas; and 50 percent of the money is now going to parts of towns where, on the average, 15 to 20 percent of the people live. So the emphasis on targeting by HUD in the application process appears to have increased the targeting of funds.

Senator DURENBERGER. Have we had enough prior approval by HUD in past years of the program? Could we now begin to replace that approval with an effective monitoring process which would be a combination of local and other monitoring sources?

Mr. ESCHWEGE. Well, if we could keep up the momentum, maybe there is now an opportunity for some relaxation. Again, I must point to what we were told. There were pressures; and, perhaps, up until now these communities could, at least, point to the application process and the requirements that are imposed upon them to withstand these pressures. It would only be conjecture on my part, but it could well be that these pressures will resurface even more if there is no longer the Federal Government to point to as being the one imposing it on the communities.

Senator DURENBERGER. Thank you for your testimony.

Our next witnesses are from the Department of Housing and Urban Development, which administers the block grant program. We will take these witnesses as a panel—Don Dodge, Acting General Deputy Assistant Secretary for Community Planning and Development; and Paul Adams, Deputy Inspector General.

Mr. Dodge, we will begin with your statement and then Mr. Adams can follow.

TESTIMONY OF DONALD G. DODGE, ACTING GENERAL DEPUTY ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; AND PAUL A. ADAMS, DEPUTY INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DODGE. Good morning, Mr. Chairman. If it pleases the Chairman of the subcommittee, I will submit my formal remarks for the record.

Senator DURENBERGER. Without objection, your full statement will be a part of the record.

Mr. DODGE. I would like to summarize.

For many years I looked forward to GAO's good reports. Unfortunately that is not the case with this report.

The report places great emphasis on targeting, which I judge to be in error. HUD is contending that more targeting is necessary, although it does not acknowledge that 75 percent of entitlement cities have Neighborhood Strategy Areas, although they are an optional designation except in cases where public services activities are undertaken.

I am happy to see GAO does acknowledge that there has been a decrease in public services, from 12 percent to 10 percent from 1978 to 1980. Indeed, the administration's proposal to the Congress for a new law did place a 10-percent cap on public services and S. 1197 adopted a 10-percent cap.

GAO also questions benefits to persons of low and moderate incomes. I would like to note that the existing Neighborhood Strategy Areas are overwhelmingly low and moderate in income, and that over 60 percent of the funds are being expended for the benefit of low- and moderate-income people.

On the rehabilitation issue, I acknowledge that the demand far exceeds supply. We are at odds with the GAO and our own Inspector General as to the means of accomplishing needed program improvements. I think one extreme is to impose more procedures, guidelines, and requirements, as proposed by our own Inspector General, as well as implied by the GAO. However, we believe that such measures do

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not insure quality. We would prefer to improve our monitoring and training and be of assistance to cities, in terms of improving their performance in rehabilitation.

I am happy to see that GAO acknowledges that HUD has taken steps to improve its oversight and monitoring functions. HUD has committed itself to work closely with the GAO to improve that activity. The Inspector General will address this issue further in his testimony.

Senator DURENBERGER. Thank you.

Mr. Adams?

Mr. ADAMS. I would also like to summarize my statement.

Senator DURENBERGER. It will be made a part of the record.

Mr. ADAMS. I would like to discuss the three specific areas which were cited in GAO's report, and to say we have been working in those areas. In particular, we completed some work last year and provided the results to the Community Planning and Development [CPD] staff. They agreed with our findings as to the deficiencies. We will be closely monitoring those in the future to determine if they are effective.

On the question of the rehab area, we did a study with respect to rehabilitation activities. We found certain weaknesses in the program and made certain recommendations, with which CPD disagreed. We have worked closely with them, and we have agreed, at this point, to provide them an opportunity to implement their alternative recommendations. We have agreed to come back, at a future date, to determine if those recommendations have achieved their stated objectives.

We also disagree with the GAO report and believe that there are other mechanisms to achieve their objectives.

This goes to several points, one being our overall process of evaluating the Department's programs. We monitor by many means. We have audits performed by our staff. We evaluate the results of those and the internal studies done by other units of the Department, contractors and independent public accountants.

Those reports have disclosed deficiencies. We have attempted to categorize them in order to try to determine underlying causes. The causes were so diverse we found no pattern of cause. The grant is such that the uniqueness of each program creates a different problem to each locality. We are continuing to analyze the work we are performing and the work performed by others to determine if there is any underlying cause which could be addressed by the Department in its regulations or procedures.

Also, the Department, through its Committee on Fraud, Waste, and Mismanagement, has recently completed a study. This committee has made specific recommendations to the Secretary concerning the targeting of our monitoring in the future, which we hope will focus and target the accountability aspect of the program.

That concludes my remarks. I will be glad to answer any questions you might have.

Senator DURENBERGER. Thank you very much.

Mr. Dodge, from HUD's standpoint, how would you state the Federal purpose of CDBG?

Mr. DODGE. As stated in the preamble of the act, the overall purposes are to benefit low- and moderate-income persons, prevent slums and blight, and meet the needs of community development which are

of a particular urgency. I think those were timely in 1974, and I think they are appropriate today. Overall, HUD is meeting those purposes of the act.

Senator DURENBERGER. Where does CDBG fit into this? There are a variety of things we can do to achieve those objectives. We can reduce spending, cut taxes, and revitalize the economy. We can also provide a more secure income security system in this country and make it good to invest in and safer to build housing in this country. What is the role for CDBG in revitalizing the communities of the low- and moderate-income people?

Mr. DODGE. I think the role of the block grant program is to provide assistance to localities, in spending money on activities which will revitalize their communities, and providing flexibility for each community to design their program and meet their own priorities. Indeed, if a city is spending 9 or 10 percent on public services, as compared to 20 percent in other communities, then that is their priority. If a city is spending more money on rehabilitating property, then that is a higher priority. We have seen an increase in the expenditures for rehabilitation since 1975 from 9 percent to over 25 percent. This illustrates that this activity is necessary, as judged by the localities, to preserve the housing stock.

There are those who would say that infrastructure—i.e. water and sewer—is of primary importance to our cities. That applies to some cities but not all. I think that the block grant program plays a role in providing national purposes, sufficient guidance in terms of national interest, but it also leaves localities flexibility to establish their own priorities, their own program design and their own means of program implementation.

I believe that, as reflected in S. 1197, there is a growing amount of flexibility afforded localities. I think the administration, certainly the Department, is pleased with that. It is a reflection of the confidence we have in the judgment of local governments.

Senator DURENBERGER. You like the flexibility and you feel confident in the local governments' decisions. You disagree, in part, with the GAO report that says this flexibility and this confidence is leading to building sun decks, patios, and things like that. I don't want to sit here and go through the ripoffs which have been outlined in their report. I can put 2 and 2 together and see that we should live with the greater flexibility.

Mr. DODGE. I would not deny there are some risks. I am sure, for example, that there can be a citation of a city using its money to build a tennis court, on the assumption that this is bad and that tennis courts are the exclusive province of rich people.

I think GAO is suggesting that we return to a narrowly focused program, which is a return to the great debates of 1971 through 1974, which gave us the block grant program. We are moving from that control to what we now have. I am very concerned that GAO is, in its judgment, suggesting to the Congress that we move back to that position.

Senator DURENBERGER. Let me phrase my question differently so it does not sound like you are endorsing ripoffs.

Let us assume we took the same amount of national resources—if you can call them that. They are dollars that end up out here rather

than back in the State or city. We put those resources into health, welfare, and some of the things that are more measurable and more flexible because the individual decides what he or she really wants in basic needs. We leave to the cities, working with the States, the job of community development.

Let's say that the resources come out equal. Is there any doubt in your mind that the cities could do a much better job of community development in this kind of an arrangement than they do when the money is coming out of HUD through CDBG?

Mr. DODGE. The incidence of ill health as compared to other nations in the Western World is appalling. There is another agency to handle that particular item.

I believe it is in the national interest and Federal interest to provide assistance to our cities, and to keep our cities viable and vibrant and good places to live and work. How that is done, I believe, is a local choice. Given the array of activities that a city can undertake, they can choose among those activities what is more important for them in their revitalization effort.

Senator DURENBERGER. Senator Danforth?

Senator DANFORTH. Could you explain to me how the citizens' participation feature operates? What is it?

Mr. DODGE. Well——

Senator DANFORTH. Just pretend that I have never heard of it before and explain it.

Mr. DODGE. Senator Danforth, I can't predict a future——

Senator DANFORTH. Just for now, I am not sure what it is.

Mr. DODGE. Citizen participation is with us, and it is kind of a way of life.

Senator DANFORTH. But what is it?

Mr. DODGE. It is based on the concept that people should have some voice in the plans and activities of their local government.

Senator DANFORTH. But how does it work? Who are the citizens and how do they participate?

Mr. DODGE. They participate in hearings and meetings.

Senator DANFORTH. Who are they?

Mr. DODGE. They are people who claim themselves the experts. Frequently in most cities, as I believe you know, we have expert citizen participation persons. We also have grassroots citizens involved in the program. I believe many mayors believe it has been a positive influence.

Senator DANFORTH. I want to start with the basics. I am sorry to be thick on this, but there is something called "citizen participation." There are at least two words there, "citizen participation"—and that means something. Citizens participation—whatever this thing is—is it required in the statute?

Mr. DODGE. It is, and has been since 1974. S. 1197 does require citizen participation in a different form.

Senator DANFORTH. But I don't know what form comes before what date. I am asking now: What is it; who are these people and what do they do? There is this Community Development Block Grant program. Suppose it goes to the city of, say, Toledo. Now does something called citizen participation govern how the money is spent?

Mr. DODGE. No, the ultimate responsibility for the expenditure of the money is with the government. Citizens do influence how that money is spent, however.

Senator DANFORTH. Let's suppose that Toledo has a mayor and a board of aldermen.

Mr. DODGE. Yes, sir.

Senator DANFORTH. Does the board of aldermen have the responsibility for determining how the money is spent in the city of Toledo?

Mr. DODGE. Yes, Senator.

Senator DANFORTH. Mr. Dodge, all I want is to be spoon-fed on this. The board of aldermen makes the decisions?

Mr. DODGE. Correct.

Senator DANFORTH. Then there is something called citizen participation, which is different from the board of aldermen?

Mr. DODGE. That is right.

Senator DANFORTH. And they do not make any decisions, they just advise? They advise people?

Mr. DODGE. That is correct.

Senator DANFORTH. Do they advise HUD or the board of aldermen?

Mr. DODGE. The board of aldermen and, on many occasions, they attempt to advise HUD as well.

Senator DANFORTH. Let's suppose they advise the board of aldermen that they want swimming pools, and the board of aldermen decides that they want tennis courts. Who wins?

Mr. DODGE. The board of aldermen.

Senator DANFORTH. So there is no real decisionmaking responsibility vested in citizen participation?

Mr. DODGE. Yes.

Senator DANFORTH. Does it add anything worthwhile to the program, citizen participation?

Mr. DODGE. Qualitatively, I can't speak to that. There is a variation that I characterize citizen participation as analogous to an amoeba. The amoeba responds to touch, light, and heat. Citizen participation is similar in that people respond to it effectively; everybody has their own idea of what it is.

Senator DANFORTH. Who picks them? Who are these people?

Mr. DODGE. Mayors frequently acknowledge a group representing the interest of a particular neighborhood, which gives some mayors trouble.

Senator DANFORTH. Are they elected?

Mr. DODGE. In some cases they are. In some cases cities do run elections. In Washington, D.C., there are neighborhood groups which have election processes.

Senator DANFORTH. Are they typically elected?

Mr. DODGE. No, they are not.

Senator DANFORTH. So if somebody says, "I am a citizen participant," he becomes an advisor to the board of aldermen.

Mr. DODGE. Yes.

Senator DANFORTH. Do they get paid for this advice?

Mr. DODGE. I don't believe so. In most instances they don't get paid. There are some expenses from time to time that cities do allow citizen groups.

Senator DANFORTH. Is it required that these citizens participate?

Mr. DODGE. It is required by both the law we are operating under and S. 1197.

Senator DANFORTH. But they have no decisionmaking responsibility?

Mr. DODGE. No, it is not specified there. The requirement is basically to make known to citizens the activities that are available to be carried out and the amount of money available connected with those activities.

Senator DANFORTH. Is the theory of these programs that the board of aldermen does not really represent the people of the city?

Mr. DODGE. I don't think that is the theory at all, Senator Danforth.

Senator DANFORTH. I take it there is an issue before us on how this program is to work and how to make it work more effectively.

Could you, in a nutshell, tell me the issue, the argument?

Mr. DODGE. The GAO report, before us this morning, does not address the citizen participation issue. Before us today are two contrasting viewpoints, of what is good and what is bad. We believe that judgment should be left in the hands of local officials. That is the first issue.

The second issue is remedies. I believe the thrust of the GAO report is to lay on more requirements, more regulations. That is contrary to what HUD's law of 1974 was, and contrary to what HUD——

Senator DANFORTH. Is it GAO's position—and I admit I have not read the report—but is the nub of the GAO report that the board of aldermen in Toledo makes bad decisions and therefore there should be more direction from Washington or somewhere else as to what decisions should be made?

Mr. DODGE. I could read that into their description; yes.

Senator DANFORTH. You don't agree with that?

Mr. DODGE. I absolutely do not agree.

Senator DANFORTH. Do you think that the board of aldermen in Toledo might not be a bunch of fools, and that we are not a bunch of wizards here in Washington?

Mr. DODGE. Well, all the wisdom is not here. I can't vouch for every alderman in Toledo, but I am sure they are scintillating people and probably other types as well.

Senator DANFORTH. But that is the nub of the issue before us.

Mr. DODGE. Who decides—that is right.

Senator DANFORTH. Local communities are feeling, many of them, economic pinches; aren't they?

Mr. DODGE. That is right.

Senator DANFORTH. Because of budgetary cutbacks and difficulties in raising money, and general cutbacks in the money available from Washington?

Mr. DODGE. Yes, sir.

Senator DANFORTH. Is it their view that they could best adjust to the diminution of the funds available if they had freedom to spend it as they saw fit, rather than being forced to respond?

Mr. DODGE. Overwhelmingly, I think they are totally in tune with fewer restrictions and greater flexibility. I think the variations among communities are so great that our regulations should not apply to every community. For example, there are some communities where the most vital strategy is economic development; so they are placing

greater program emphasis in that area. We think that is wise, given today's economy and declining revenues. That seems reasonable and appropriate to us. I don't think that should be decided for every community here in Washington.

Senator DANFORTH. Just one other question for you.

When I talk to local officials, they complain that, in order to get a Federal grant, they have to go through a tremendous quantity of paperwork. They have to hire a grantsman to apply for the grants. They have to set up all kinds of bookkeeping requirements, and so on. Oftentimes that is not worth it. There is just so much of an overlay of requirements that it is hardly worth doing business with Uncle Sam.

Does that criticism apply to the Community Development Block Grant program?

Mr. DODGE. We hear it all the time.

Senator DANFORTH. You do?

Mr. DODGE. We do. In fiscal year 1975, the first year of operation of the program, the regulations were quite limited. But over the years, and maybe for good purposes, there has been an evolution of paperwork. A policy issue with respect to Springfield, Mo., does not necessarily apply to Springfield, Mass., but the Missouri remedy becomes national gospel. So, what the Department is doing now is reexamining every one of its regulations, to do away with as many as possible, to lighten that burden so mayors and Congress people don't have to say, "Is it really worth the effort?"

Senator DANFORTH. Thank you very much.

Senator DURENBERGER. Thank you.

Mr. Adams, you listened to Mr. Dodge's responses to the questions. It seems that he is recommending that we take money equivalent to the CDBG appropriation and funnel it back to certain qualifying cities and counties without any more regulation than we now have on the General Revenue Sharing program. How does his testimony strike you?

Mr. ADAMS. It seems to take on those characteristics.

Senator DURENBERGER. Where does the IG fit in this targeting debate between HUD and GAO—whether it is income-based targeting, or local discretion which we have been discussing? Where do you come out in your analysis?

Mr. ADAMS. I can only share with you our rehab study. We proposed that some additional guidelines be published. Our counterparts came back with a proposal to use more technical monitoring. They believe they can achieve those same objectives through those mechanisms. We are willing to let them have an opportunity to test that. I can assure you, however, that we will be watching to see if they are achieving the same goals.

Senator DURENBERGER. Can you explain what they are proposing by way of CDBG monitoring?

Mr. ADAMS. Yes; I believe so, in general terms. They would require a greater number of monitoring visits to certain localities. We have some concern with respect to that. We do not believe it reaches all the localities. However, we are also working through our committee to try to target what monitoring they do and to concentrate on those areas where there might be misuse and abuse.

Senator DURENBERGER. But Mr. Dodge says we want sundecks in Springfield, Mass., but not in Springfield, Mo. He says that is not our problem. So, why bother monitoring? What is left to monitor, given his testimony?

Mr. ADAMS. That is a tough question to cope with. We will await any revisions to the program, and then determine the need for monitoring.

Senator DURENBERGER. Mr. Dodge, let me ask you that same question.

Mr. DODGE. The program is different for each community. Of course, the cities are different, by virtue of the dollar value. First of all, we look at the expenditures, what they are spending their money for. We look at the array of programs and the progress of the programs, with a number of indicators.

It is true we cannot reach every community because of the resources available to us. However, there is a requirement by law that each community be audited at least every 2 years by an independent public auditor. When the auditors find a deficiency, then they report it. That prompts us to examine the case and, in some cases, make a site visit.

Mr. Chairman, I did not want to imply, in the least bit, by my testimony that I was promoting special revenue sharing. We do not believe that community development should be simply someone in the basement of the Treasury writing checks. In fact, we believe that the Congress has very appropriately established purposes for the program. Second, it has also specified the activities to be carried out by cities to promote those purposes. We think that is an important Federal and congressional role and an important public policy. It is, however, not revenue sharing, as proposed by President Nixon in 1971.

Senator DURENBERGER. Could you tell us about your internal audit on the citizen participation requirement?

Mr. ADAMS. No, sir. We are considering doing one in the coming annual plan for next year, beginning October 1.

Senator DURENBERGER. Do you have any observation at all, then, on the citizen participation?

Mr. ADAMS. No, sir. It varies from locality to locality and by the level of participation.

Senator DURENBERGER. Thank you both very much, I appreciate your testimony.

[The prepared statements of Mr. Dodge and Mr. Adams follow:]

STATEMENT OF DONALD G. DODGE
ACTING GENERAL DEPUTY ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT
BEFORE THE
SENATE INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
JUNE 11, 1981

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS GAO'S RECENTLY PUBLISHED REPORT ENTITLED THE CDBG PROGRAM CAN BE MORE EFFECTIVE IN REVITALIZING THE NATION'S CITIES. IN REQUESTING THAT THIS STUDY BE UNDERTAKEN, SENATOR PROXMIRE EXPRESSED THREE OBJECTIVES. THE FIRST OBJECTIVE WAS TO ASSESS THE DEGREE TO WHICH FUNDS ARE BEING CONCENTRATED IN THE BLOCK GRANT PROGRAM. THE SECOND OBJECTIVE WAS TO DETERMINE THE EFFECTIVENESS OF THE BLOCK GRANT REHABILITATION PROGRAM AND THE THIRD WAS TO ASSESS THE QUALITY OF HUD'S MONITORING SYSTEM. THESE ARE INDEED IMPORTANT CONCERNS TO HUD, AND I WOULD LIKE AT THIS TIME TO ADDRESS EACH OF THEM.

TARGETING

GAO STRESSED THREE AREAS IN ITS DISCUSSION OF TARGETING: TARGETING TO GEOGRAPHICAL AREAS; TO HIGH PRIORITY ACTIVITIES; AND TO LOW-AND MODERATE-INCOME PERSONS. I WILL DISCUSS EACH OF THESE AREAS.

GEOGRAPHIC TARGETING

CONCENTRATION OF CDBG FUNDS WAS OBSERVED BY GAO TO BE INADEQUATE IN THE EARLY YEARS OF THE BLOCK GRANT PROGRAM. NONETHELESS, THEY NOTE THAT HUD ISSUED REGULATIONS THAT ENCOURAGED CITIES TO TARGET TO GEOGRAPHIC AREAS; AND TERMED HUD'S EMPHASIS ON THIS TOPIC AS "SOMEWHAT SUCCESSFUL". GAO THEN CONCLUDED THAT GEOGRAPHIC TARGETING COULD BE MORE EFFECTIVE, BUT THEY DID NOT INDICATE EXACTLY WHAT "MORE EFFECTIVE" TARGETING WOULD ENTAIL.

I WISH TO PREFACE MY COMMENTS ON THIS ISSUE BY NOTING THAT HUD'S INTENT TO MAXIMIZE LOCAL DISCRETION AND FLEXIBILITY TO ENTITLEMENT GRANTEES REMAINS UNCHANGED. ADDITIONALLY, THE SPECIFIC ISSUE OF GEOGRAPHIC TARGETING IS STILL UNDER EXAMINATION BY HUD. WE CONTEND THAT CDBG FUNDS HAVE INDEED BEEN GEOGRAPHICALLY TARGETED BY ENTITLEMENT GRANTEES THROUGH THE USE OF NSAs (NEIGHBORHOOD STRATEGY AREAS).

ALTHOUGH AN OPTIONAL DESIGNATION, EXCEPT WHERE PUBLIC SERVICES ACTIVITIES ARE BEING UNDERTAKEN, CITIES HAVE ELECTED TO UTILIZE NSAs AS A TARGETING TOOL. IN FACT, SEVENTY-FIVE PERCENT OF THE ENTITLEMENT CITIES IN 1980 FUNDED NSAS, AND OVER FIFTY PERCENT OF THEIR ENTITLEMENT FUNDS WERE TARGETED TO THESE AREAS.

ENTITLEMENT CITIES DESIGNATED AN AVERAGE OF FOUR NSAs, WHICH ENCOMPASSED TWENTY PERCENT OF THEIR POPULATIONS AND COVERED FIFTEEN PERCENT OF THEIR LAND AREA.

HIGH PRIORITY ACTIVITIES

GAO FURTHER CONCLUDED THAT "THE BROAD APPLICABILITY OF BLOCK GRANT FUNDS LIMITS PROGRAM IMPACT." THEY QUESTIONED THE RELATIONSHIP OF PUBLIC SERVICES ACTIVITIES TO REVITALIZATION OBJECTIVES, SUGGESTING THAT "ALTERNATIVE SOURCES COULD BE USED FOR PUBLIC SERVICES AND OTHER MINIMAL IMPACT ACTIVITIES." I WOULD LIKE TO NOTE THAT THE PERCENTAGE OF CDBG FUNDS EXPENDED ON THIS ACTIVITY HAS DECLINED FROM 12 PERCENT IN 1978 TO 10 PERCENT IN 1980. MOREOVER, SINCE PUBLIC SERVICES ACTIVITIES ARE CONGRESSIONALLY AUTHORIZED, ELIGIBLE ACTIVITIES, WE DISAGREE WITH GAOs INFERENCE THAT SUCH ACTIVITIES ARE INAPPROPRIATE. WE FURTHER DISAGREE WITH GAO'S IMPLICIT ASSUMPTION THAT PUBLIC SERVICES ARE OF MINIMAL IMPACT TO LOCALLY DEVELOPED URBAN REVITALIZATION EFFORTS.

LOW-AND MODERATE-INCOME BENEFIT

GAO ALSO QUESTIONS THE EXTENT OF CDBG TARGETING TO LOW-AND-MODERATE INCOME PERSONS. THIS ISSUE CLEARLY WARRANTS DISCUSSION. THE ONLY ASSESSMENT OF THE TARGETING OF BENEFITS TO LOW-AND-MODERATE INCOME PERSONS PROVIDED BY GAO IS AN EXCERPT FROM A 1980 BROOKINGS INSITITUTION REPORT ENTITLED TARGETING COMMUNITY DEVELOPMENT, AND, IN FACT, THE CITED REPORT INDICATES THAT TARGETING OF BLOCK GRANT BENEFITS TO LOW-AND MODERATE-INCOME PERSONS HAS IMPROVED DUE TO HUD EMPHASIS. I WISH TO NOTE THAT EXISTING NSA NEIGHBORHOODS ARE INDEED OVERWHELMINGLY LOW-AND-MODERATE INCOME AREAS AND TEND TO BE AMONG THE MOST DISTRESSED AREAS OF ENTITLEMENT CITIES. INDEED, CDBG FUNDING IN LOW-AND

MODERATE-INCOME AREAS INCREASED FROM 58 PERCENT OF PROGRAM FUNDS IN 1978 TO 62 PERCENT IN 1980. CDBG FUNDS ARE ALSO BEING TARGETED TO AREAS WITH HIGH MINORITY CONCENTRATIONS, WITH APPROXIMATELY HALF OF ALL NSA FUNDS BEING BUDGETED FOR SUCH AREAS. WHILE ONLY NINE PERCENT OF ALL CENSUS TRACTS IN ENTITLEMENT CITIES HAVE BETWEEN 80 TO 100 PERCENT BLACK POPULATION, THESE TRACTS REPRESENT 13 PERCENT OF ALL CDBG FUNDED TRACTS AND THEY RECEIVED 18 PERCENT OF ALL CDBG FUNDING IN 1980.

FINALLY, AS DISCUSSED IN THE DEPARTMENT'S SIXTH ANNUAL CDBG REPORT, NOT ONLY HAS CDBG FUNDING IN LOW-AND-MODERATE INCOME AREAS INCREASED, BUT FUNDING ALSO INCREASED IN THE MOST HIGHLY DISTRSSED AREAS WITHIN ENTITLEMENT CITIES.

CDBG REHABILITATION ACTIVITIES

GAO EXPRESSED CONCERN THAT THE BROAD FLEXIBILITY AFFORDED COMMUNITIES HAS LIMITED THE IMPACT OF CDBG FUNDS. THEY CITED THE SPECIAL OPERATIONAL SURVEY PERFORMED BY HUD'S INSPECTOR GENERAL (IG) TO DOCUMENT ALLEGED DEFICIENCIES IN THE BLOCK GRANT REHABILITATION PROGRAM AND TO SUPPORT THEIR FINDINGS. WE MAINTAIN THAT SOME OF THE PROBLEMS CITED DO EXIST IN THE BLOCK GRANT REHABILITATION PROGRAM. HOWEVER, AS WE HAVE STATED IN OUR RESPONSE TO THE INSPECTOR GENERAL ON THIS TOPIC, HUD PREFERS TO ADDRESS THESE PROBLEMS THROUGH MONITORING, TRAINING, AND TECHNICAL ASSISTANCE. WE BELIEVE THAT THIS IS CONSISTENT WITH THE INTENT OF THE BLOCK GRANT PROGRAM TO GRANT LOCALITIES MAXIMUM DISCRETION AND FLEXIBILITY. MOREOVER, I ALSO WISH TO EMPHASIZE THAT THIS FLEXIBILITY DOES NOT PRECLUDE HUD's EFFORTS TO MAXIMIZE EFFECTIVENESS. EVIDENCE TO SUPPORT OUR CONTENTION APPEARS IN BOTH THE DEPARTMENT'S SIXTH

ANNUAL CDBG REPORT TO CONGRESS AND THE HUD-FUNDED COMMUNITY DEVELOPMENT (CD) STRATEGIES EVALUATION, UNDERTAKEN BY THE UNIVERSITY OF PENNSYLVANIA AND ABT ASSOCIATES. PRELIMINARY FINDINGS IN THE (CD) STRATEGIES EVALUATION INDICATED THAT:

- o REHABILITATION PROGRAMS FUNDED BY THE CDBG PROGRAM ARE HIGHLY TARGETED AND HAVE A BETTER RECORD THAN OTHER PUBLICLY-FUNDED REHABILITATION PROGRAMS FOR TARGETING TOWARD LOWER-INCOME, MINORITY, ELDERLY, AND FEMALE-HEADED HOUSEHOLDS; AND,

- o CDBG-SPONSORED REHABILITATION WAS MORE LIKELY TO FUND STRUCTURAL REPAIRS, SYSTEMS COMPONENT REPAIRS, AND LARGE PROJECTS INVOLVING SUBSTANTIAL OUTLAYS THAT WOULD OTHERWISE HAVE BEEN DEFERRED.

MOREOVER, THE GAO's COMPARISON OF THE NUMBER OF UNITS REHABILITATED USING CDBG FUNDS WITH THE TOTAL NUMBER OF UNITS IN NEED OF REPAIR IS INAPPROPRIATE. LIMITED CDBG RESOURCES COULD NOT AND WERE NEVER INTENDED TO ELIMINATE ALL HOUSING PROBLEMS. FURTHER, IT SHOULD BE NOTED THAT SIGNIFICANT GAINS HAVE BEEN MADE IN CDBG FINANCED REHABILITATION. PRIOR TO 1974, PUBLICLY SUPPORTED REHABILITATION PROGRAMS HAD NEVER UPGRADED MORE THAN 10,000 DWELLING UNITS A YEAR. IN 1979 LOCALITIES UTILIZED CDBG FUNDS TO COMPLETE REHABILITATION ON NEARLY 100,000 UNITS. MANY FACTORS HAVE CONTRIBUTED TO THIS TREMENDOUS EXPANSION IN LOCAL REHABILITATION ACTIVITY, BUT IT IS CLEAR TO HUD THAT THE FLEXIBILITY AFFORDED UNDER THE CDBG PROGRAM HAS BEEN A FACTOR FOR BOTH GROWTH OF REHABILITATION INTEREST AND LOCALITIES ABILITY TO ASSIST EVEN LARGER NUMBERS OF PROGRAM APPLICANTS EACH YEAR. MOST PRE-1974 REHABILITATION WAS FINANCED THROUGH LOAN PROGRAMS, WHICH CONTAINED COMPLEX AND TIME-CONSUMING

PROCESSING STEPS THAT REQUIRED INTENSIVE STAFF INVOLVEMENT. SINCE 1974, MANY LOCALITIES UTILIZING CDBG FUNDS HAVE RECOGNIZED THAT THEY CANNOT SERVE THE DESIRED NUMBER OF APPLICANTS WHILE UTILIZING OLDER BUREAUCRATIC PROCEDURES AND HAVE ADOPTED RULES THAT REQUIRE LESS PAPERWORK.

WE BELIEVE THAT THE DESIGN AND DIRECTION OF CDBG REHABILITATION PROGRAMS ULTIMATELY SHOULD REST PRIMARILY WITH LOCALITIES AND NOT HUD.

IT IS TRUE THAT THE DRAMATIC EXPANSION IN LOCAL REHABILITATION ACTIVITY HAS RESULTED IN SOME PROBLEMS. DESPITE THESE DIFFICULTIES AND THE NEED FOR IMPROVEMENTS, WE BELIEVE THAT THE LOCAL STAFF HAVE DONE A CREDIBLE JOB OF GETTING LOCAL REHABILITATION OPERATIONS UNDERWAY. WITH APPROXIMATELY 75 PERCENT OF ALL LOCAL STAFF MEMBERS NEW TO THE REHABILITATION FIELD, LOCAL STAFF INEXPERIENCE IS BEING ADDRESSED THROUGH HUD-SPONSORED TRAINING AND WORKSHOPS. THIS APPROACH ALLOWS EXPERTISE TO BE DEVELOPED IN COMMUNITIES, HENCE, IT SEEMS TO BE THE MOST APPROPRIATE ROLE FOR THE FEDERAL GOVERNMENT. WITH THE BUILDING OF LOCAL EXPERTISE, WE BELIEVE CDBG REHABILITATION PROGRAMS WILL CONTINUE TO IMPROVE.

OVERSIGHT AND MONITORING

GAO REPORTED THAT HUD HAD TAKEN MANY STEPS SINCE 1978 TO STRENGTHEN ITS MONITORING OF BLOCK GRANT RECIPIENTS, BUT CONCLUDED THAT IT WAS TOO EARLY TO DETERMINE THEIR EFFECT. PRELIMINARY EVIDENCE SUPPORTS THE DEPARTMENT'S

POSITION THAT MONITORING BY HUD FIELD STAFF, REVIEWING INDEPENDENT PUBLIC ACCOUNTANT REPORTS, AND PERFORMING AUDITS OF SELECTED GRANTEES BY THE INSPECTOR GENERAL RESULTS IN EARLY DETECTION AND ELIMINATION OF GRANTEES' OPERATING DEFICIENCIES. HUD's OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT HAS WORKED IN CLOSE COOPERATION WITH THE INSPECTOR GENERAL TO IDENTIFY AREAS FOR SYSTEMATIC IMPROVEMENTS. THIS STEP OFTEN HAS RESULTED IN RESOLUTION OF FINDINGS, AS WELL AS THE RAISING OF POLICY QUESTIONS TO THE HIGHEST LEVEL OF DISCUSSION. TO ENSURE THAT ADEQUATE INFORMATION IS AVAILABLE, AND THAT THERE ARE CONTROLS TO MAKE CERTAIN THAT PROGRAM EXPENDITURES ARE FOR ELIGIBLE ITEMS, GAO HAS RECOMMENDED THAT THE INSPECTOR GENERAL IDENTIFY AND CONDUCT AN ANALYSIS TO DETERMINE THE EXTENT OF PROBLEMS IN GRANTEES' CONTROLS OVER EXPENDITURES.

THIS TOPIC WILL BE DEALT WITH MORE EXTENSIVELY IN THE INSPECTOR GENERAL'S TESTIMONY.

METHODOLOGY

I ALSO WISH TO POINT OUT WHAT WE CONSIDER TO BE SERIOUS FLAWS IN THE METHODOLOGY EMPLOYED BY GAO IN THEIR STUDY. GAO CONDUCTED A LITERATURE REVIEW, INTERVIEWED CPD CENTRAL OFFICE STAFF, AND ATTENDED CPD SELECTED CITY BRIEFINGS TO LEARN MORE ABOUT THE OPERATION OF SPECIFIC ENTITLEMENT CITY PROGRAMS. GAO ALSO REVIEWED NINE AREA OFFICES AND FIFTEEN ENTITLEMENT GRANTEES, SELECTED JUDGEMENTALLY, TO OBTAIN VARIATION ACCORDING TO LOCATION, FUNDING, POPULATION, DISTRESS, CONTRACT CONDITIONING, AND ACTIVITY MIX. ACTUALLY, THE SAMPLE OF FIFTEEN GRANTEES COMPRISED LESS THAN ONE PERCENT OF

THE UNIVERSE OF GRANTEES, WITH ONLY ONE URBAN COUNTY, AND JUST FOURTEEN, OR 2 PERCENT OF THE ENTITLEMENT CITIES. GEOGRAPHIC REPRESENTATION WAS ALSO LACKING IN THAT ONLY SIX GRANTEES WERE LOCATED IN THE NORTHEAST, SIX IN THE NORTH CENTRAL, TWO IN THE SOUTH, AND ONLY ONE IN THE WEST. IN SUMMARY, THE GAO SAMPLE WAS NEITHER STATISTICALLY NOR PRACTICALLY REPRESENTATIVE OF THE PROGRAM NOR LARGE ENOUGH TO SUPPORT THE KINDS OF GENERALIZATIONS AND FINDINGS CONTAINED IN THE REPORT.

ANOTHER CRITICAL FLAW IN THE GAO METHODOLOGY WAS THE LACK OF A SYSTEMATIC METHOD USED IN COLLECTING THE INFORMATION. THERE IS NO INDICATION EITHER IN THE METHODOLOGICAL DESCRIPTION OR IN THE TEXT THAT GAO STAFF UTILIZED INTERVIEW SCHEDULES OR DATA COLLECTION INSTRUMENTS TO PURSUE THEIR OBJECTIVES.

AS A RESULT, GAO FELL FAR SHORT OF ITS MANDATE. THE FINAL REPORT IS DEVOID OF EMPIRICAL EVIDENCE ADDRESSING THE STATED OBJECTIVES, AND IT CONTAINS ANECDOTES AND QUOTATIONS FROM A VARIETY OF NON-GAO REPORTS THAT ARE NOW OUTDATED. AGAIN, THERE WAS NO SYSTEMATIC INFORMATION REPORTED EITHER FROM THE SAMPLED GRANTEES OR FROM THE UNIVERSE OF ENTITLEMENT COMMUNITIES. IN GENERAL, THE REPORT IS FLAWED IN TERMS OF ITS DESIGN AND LACK OF SYSTEMATIC INFORMATION AND SUPPORTING DOCUMENTATION FOR ITS CLAIMS AND POLICY RECOMMENDATIONS, AND IT IS IMPOSSIBLE TO DETERMINE THE EXTENT, FREQUENCY, OR VALIDITY OF MOST OF THE REPORT'S FINDINGS AND CONCLUSIONS.

CONCLUSION

FINALLY, WE BELIEVE THAT LOCAL DISCRETION AND FLEXIBILITY ARE THE CORNERSTONES OF THE CDBG PROGRAM, AND STRONGLY FEEL THAT GAO'S POLICY PROPOSALS WOULD SERVE TO CHANGE THE VERY NATURE OF THE CDBG PROGRAM AND SUBSTANTIALLY ALTER THE BLOCK GRANT CONCEPT.

CONGRESS ENACTED THE CDBG PROGRAM IN ORDER TO ADDRESS THE PROBLEMS AND CRITICISMS ASSOCIATED WITH THE PREVIOUS HUD CATEGORICAL PROGRAMS. IN DOING SO, GREATER LOCAL FLEXIBILITY AND DECISION-MAKING IN THE DESIGN AND IMPLEMENTATION OF LOCAL COMMUNITY DEVELOPMENT PROGRAMS HAVE BEEN FOSTERED.

ONE OF THE DEPARTMENT'S PRIMARY CONCERNS IS WITH THE MAJOR, ALTHOUGH UNSUPPORTED, THRUST OF GAO'S REPORT, WHICH IS ONE OF CHANGING A CURRENTLY FLEXIBLE, EFFECTIVE PROGRAM INTO ONE THAT IS CATEGORICAL AND FEDERALLY DICTATED IN NATURE.

AS A RESULT OF PREVIOUS STUDIES AND AUDITS, HUD HAS RECOGNIZED THAT THE CDBG PROGRAM HAS SOME PROBLEMS WHICH MUST BE ADDRESSED. HOWEVER, BECAUSE OF THE DEFICIENT STUDY DESIGN, METHODOLOGICAL WEAKNESSES, AND UNSUPPORTED ASSUMPTIONS AND POLICY PREFERENCES THAT PERMEATE THE REPORT, THE GAO PRESENTS AN OVERLY NEGATIVE AND MISLEADING ASSESSMENT OF HOW THE CDBG PROGRAM IS OPERATING AND OF HOW IT CAN BE MADE TO MORE EFFICIENTLY MEET ITS INTENDED GOALS AND OBJECTIVES.

THIS CONCLUDES MY STATEMENT BEFORE THIS COMMITTEE. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE AT THIS TIME.

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STATEMENT OF PAUL A. ADAMS
DEPUTY INSPECTOR GENERAL
BEFORE THE
SENATE INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
JUNE 11, 1981

Mr. Chairman and Members of the Committee:

I am pleased to appear before this Committee and discuss with you the GAO report entitled "The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities."

I would like to begin by discussing the three specific areas which are addressed in the GAO report, namely, targeting of funds, the effectiveness of rehabilitation programs, and the monitoring of grantee performance, and provide you with some information as to the work which the HUD Office of Inspector General has accomplished in these areas.

In May 1980, we completed a review of compliance with Neighborhood Strategy Area (NSA) requirements under the Community Development Grant (CDBG) Program, pertaining to areas designated by entitlement grantees. The objectives of the review were: (1) to establish whether NSA designations are properly evaluated by HUD staff; (2) to determine grantee applicants' compliance with HUD requirements in designating NSAs; and (3) to evaluate HUD/grantee monitoring of NSA activities.

Our audit disclosed that NSA implementation strategies were not adequately developed by grantees; applications containing NSA designations did not include appropriate information; and applications were not properly evaluated to assure that the grantees' strategies would provide sufficient resources for substantial

NSA improvements within reasonable time periods. We found that one approved NSA failed to meet "acceptable" criteria for substantial improvements within a reasonable time, while other NSAs were not adequately supported to determine whether these basic criteria were met. We also found that grantees generally failed to provide formal assessments of NSA program effectiveness in quantitative (measurable) terms within their Grantee Performance Reports.

Prior to the issuance of this audit report, the results were discussed with HUD Headquarters personnel in the Office of Community Planning and Development (CPD). Subsequent revisions were made to the applicable HUD Handbook to strengthen field office review of NSA designations and to reanalyze those NSAs previously approved. Accordingly, we deferred further audit work in this area.

In November 1980, we completed a Special Operational Survey of CDBG Rehabilitation Activities. The objectives of the survey were to identify possible irregularities and/or abuse, and administrative weaknesses, and the extent thereof, in the operation of CDBG rehabilitation activities.

Our review showed that grantees did not follow sound administrative practices, which resulted in: (1) monies expended for repairs on dwellings which still had at least one serious violation of housing quality standards; (2) monies expended for work contracted for but not done or poorly done; (3) the incurrence of excessive repair costs; and (4) monies expended on repairs which were not needed to correct violations of housing quality standards. We also

found that the lack of program limitations allowed grantees to carry out programs which did not bring properties up to some minimal property standard and allowed general property improvements when violations of standards had not been corrected.

The Department agreed with a majority of the findings relating to local delivery of CDBG rehabilitation including deficiencies in grantee performance with regard to documentation of initial inspection, work write-ups and repairs required in contracts. Further, the Department believes that assisting CDBG localities in developing their capacity through technical assistance and monitoring is the most appropriate means of alleviating the deficiencies cited in our report.

In regard to the monitoring of grantee performance, our office has found and reported a number of instances where the reviews by HUD field offices have been inadequate. This has been a problem that appears in the internal and external audits conducted by our office, and audits performed by Independent Public Accountants. In addition, our Special Operational Survey on CDBG Rehabilitation Activities, which I have just discussed, disclosed serious weaknesses in the administration of that activity. These various reports point out expenditures for ineligible activities, poorly done or incomplete work, inadequate evaluation and accounting systems, and poor procurement and contracting procedures.

In our opinion, HUD's monitoring system should be designed to be an early warning system to such serious problems. Monitoring has a vague meaning and we believe a distinction needs to be made between proper oversight and accountability of funds to prevent fraud and abuse and Federal monitoring affecting local governments' discretion in the use of the funds.

In response to the GAO's report, we take issue with the conclusion that the frequency of problems experienced by CDBG recipients, as well as the causes of these problems, are questions which have not been answered by the Inspector General. The report states on Page 35 that the Inspector General reports "... have been on individual grantee operations, rather than for the purpose of identifying systematic problems which may exist with a majority of grantees." This statement does not reflect either the extent of the Inspector General's internal audit work or the analyses performed.

Since 1976, the Inspector General has conducted many internal audits of the CDBG Program. The purpose of these audits was to identify areas for systemic improvements. For those areas covered by internal audits, problems and causes have been identified and recommendations have been made for corrective actions. Some of the major internal audits include:

Monitoring Letters-of-Credit

Environmental Review Activities of Grantees Participating in the CDBG Program

Citizen Participation in the CDBG Program

Social Service Activities in the CDBG Program

The Office of Inspector General's (OIG) two trend analysis reviews, which GAO cites, encompassed 282 grant recipients. These reviews were performed for the specific purpose of identifying recurring-type problems of CDBG recipients and determining their frequency. Regarding the causes of CDBG recipients' problems, the OIG found that the causes differed from grantee to grantee and in effect, the causes were so diverse that they were difficult to categorize and analyze for trends purposes.

Unlike categorical grant programs which target funds to specific areas through the application of rigid procedures and criteria, the nature of the CDBG Program is such that considerable flexibility in planning and implementation is afforded each grantee who participates in the Program. This flexibility has resulted in Program results that vary considerably from grantee to grantee. We believe that proper monitoring by HUD field staff and reviewing Independent Public Accountants' (IPAs) reports, as well as performing audits of selected grantees by the OIG, can result in early detection of grantees' operating deficiencies.

Office of Management and Budget (OMB) Circular A-102, Attachment P, requires that State and local governments arrange for biennial audits of Federal assistance which they receive. One of the objectives of these audits is to determine whether "There is effective control over and proper accounting for revenues, expenditures, assets, and liabilities." We believe that the IPA reports cover the control of expenditures and identify problems which require correction. Findings in these reports are controlled under HUD's Audits Management System.

In addition to the two trend analyses discussed above, the Regional Inspectors General for Audit (RIGA), on a quarterly basis, analyze problems and findings contained in IPA and HUD's audit reports. These analyses are summarized and the results are conveyed to the Assistant Secretary for CPD. These results are also used in identifying potential internal audit areas.

Each year, the Inspector General's staff develops an annual audit plan and all potential internal audit areas are rated to determine priorities. We believe that we have devoted an appropriate amount of staff resources to internal audits of the CDBG Program.

The GAO report mentions the Administration's focus on eliminating fraud, abuse and waste as a reason to identify causes of problems in grantees' controls over expenditures. As evidence that HUD shares these concerns, the Department eestablished a Committee on Fraud, Waste and Mismanagement (CFWM). The Committee was formed to advise the Secretary on policy matters associated with minimizing occurrences of fraud, waste, and mismanagement in HUD programs and activities.

The Committee consists of representatives from all principal offices in HUD, including Regional and Area Office Managers. The Inspector General, as Chairperson, coordinates and guides Committee activities and provides technical assistance and support to the Committee in undertaking its various projects.

Because weaknesses in monitoring have been a persistent concern of managers, the CFWM conducted a study of HUD's monitoring policies and problems and has recommended certain changes to the Secretary. The use of monitoring resources has evolved into compliance reviews on a multitude of regulations impacting on the local decision making process. It is imperative that the

Department target its remaining resources more effectively. Managers must prioritize the work of their monitors and review only the most significant areas.

The Committee believes monitoring should assure that program funds that are subject to the greatest risk of mismanagement and abuse are reviewed and accounted for and that reviews of social goals be reduced or eliminated. Therefore, the overall thrust in the report is to turn monitoring into a "first line of defense" against abuse of HUD programs and funds. This is not only to help protect the Department, but also the participants. Early detection of problems, which would otherwise lead to costly sanctions, is a strategy based on prevention. It is also a fulfillment of the Department's stewardship role to the taxpayer for the use of HUD funds. The report refers to this concept as "accountability monitoring." In late April, the Secretary approved the report recommendations for implementation.

In summary, we believe that the Inspector General has sufficient information on recurring problems among grantees, through the RIGAs' quarterly analyses, and periodic major analyses. Further, the OIG will be active in coordinating and supporting the task group implementing the CFWM's recommendations. Also, any program changes resulting from legislation or Administrative revisions may require changes in our audit emphasis. These analyses, as well as the conducting of internal audits in areas where problems are identified and working with the CFWM to identify other systemic problems, will continue to provide a good combination of efforts in auditing the CDBG Program. Therefore, we believe that these efforts are appropriate at this time.

This concludes my statement before this Committee. I would be happy to answer any questions you may have at this time.

Senator DURENBERGER. We can take the next two witnesses together: William D. Kelleher, associate director, Construction, Housing and Community Development, Human and Community Resources Division, U.S. Chamber of Commerce; and Jim Scott, county supervisor, Fairfax County, Va.

Your full statements will be made a part of the record. You can either read or summarize them.

TESTIMONY OF JAMES M. SCOTT, COUNTY SUPERVISOR, FAIRFAX COUNTY, VA., REPRESENTING THE NATIONAL ASSOCIATION OF COUNTIES, ACCOMPANIED BY JOHN MURPHY; AND WILLIAM D. KELLEHER, ASSOCIATE DIRECTOR, CONSTRUCTION, HOUSING AND COMMUNITY DEVELOPMENT, HUMAN AND COMMUNITY RESOURCES DIVISION, U.S. CHAMBER OF COMMERCE

Mr. SCOTT. Thank you, Mr. Chairman.

I am Jim Scott from Fairfax County, Va., speaking for the National Association of Counties. John Murphy is with me today.

As you know, the counties' participation in the block grant program has been a rewarding and, I think, useful experience. There are about 85 urban counties which are in the program. We think the program has served to expand the role and responsibilities of local elected officials, and has fostered citizen involvement in planning for the future of the communities. It is also proving to be a good tool to meet objectives for improving the quality of life for low- and moderate-income persons.

NACo has worked long and hard for the passage of legislation to involve counties in these activities, and we are pleased with the involvement of our communities. We are now faced with a number of proposed changes to this program. In general these changes, most of which have been approved by the Senate Banking Committee, are all good, and they are increasing local discretion. To a large extent we think they proceed in the opposite direction as to that contained in the report.

The GAO in its review of 15 entitlement community development programs—one of which was that of an urban county—suggests that community development funds have been spread too widely, that rehabilitation funds have been spent for questionable purposes and were not provided to those in the greatest need, and that there is insufficient information to determine whether funds are eligible or not. As a result of these findings, they have some recommendations for change.

I would like to comment on the GAO recommendations. It is clear to me the GAO study has some rather subjective judgments. They have admitted their conclusions are not statistically proven, having taken 15 communities and only 1 urban community. Therefore, I think it is possible that their judgments may be right, and it is possible they may be wrong. We think some are questionable.

We are supportive of the notion of increasing local flexibility. We believe that this was the basic intention of the 1974 act. While there are a couple of things we do not have any quarrel with in great detail or depth, we think that instead of more regulatory restraint, we may well need less. We believe that block grants are an effective means of providing Federal assistance to meet national objectives, if we truly

trust locally elected officials. I would like to specifically talk about the recommendations.

One, the need for a concentration of funds in small geographic areas so that visible improvements can be achieved. The contention of the report is that funds should be limited to a small area so that visible improvements can be achieved. This suggests that a more important product of block grant expenditures is an obvious and identifiable physically improved plant, a sort of before-and-after approach to neighborhood improvements. Although this may be more desirable and quantifiable from a GAO auditor's point of view, it is unrealistic in many communities. Low- and moderate-income individuals are often dispersed and should not be denied assistance simply on a geographic basis. This is a particularly important point to counties, where people are not necessarily concentrated but spread throughout.

As to GAO's contention that funds are spread too thin, I think that sometimes politics often decide fund allocation. It seems to me—at least as long as the beneficiaries are low- and moderate-income persons, as the case is in my county—there is really nothing wrong with this. Politics ought to control the local allocation of funds in the traditional American form of citizen participation and responsiveness to citizen needs.

Two, reducing the list of eligible activities, particularly public service, so that funds can be used to meet cities' most urgent revitalization needs. Here again who is to say what the localities' most urgent needs are, the locality and its citizens? I happen to think that making public services an eligible use of block grant funds when such use is limited—as it is in present regulations—to Neighborhood Strategy Areas is a good one. The existing limitations help insure that the CDBG program remains primarily a physical development/redevelopment one, but flexible enough to accommodate related needs.

Three, requiring income eligibility limits for block grant supported rehabilitation.

Mr. Chairman, I am very surprised to learn that some communities apparently do not employ income limits for block grant supported rehab. At a recent meeting of 30 urban counties, we asked how many did not restrict rehab assistance to low- and moderate-income persons. All said they had such a limitation. I think this has to be realistic. It must reflect the fact that there are different cost-of-living standards throughout the country.

Four, limit eligible rehab work, specifically prohibiting nonessential and luxury items. I think there is a reason to question who makes the determination. Some things might be perceived as luxury by one person but not by another. For example, we certainly would not want to say that a fresh coat of paint which might be viewed as an amenity by some could not be a part of a rehab project. I think in this instance, as well as others, you have to put some reliance on the judgment of a local elected official.

Mr. Chairman, as you can see, I and my colleagues in NACo favor block grants such as community development. In concept, as well as reality, they must reflect a commitment to maximizing local flexibility. I do not believe the Community Development Block Grant program should be further constrained as GAO recommends.

Thank you for your consideration.

Senator DURENBERGER. Thank you.

Mr. Kelleher?

Mr. KELLEHER. I have a statement, but I will summarize it.

Since its conception the program has become entangled in a system of rules and regulations which has limited the use of the block grant. We feel this has two long-term implications for block grants. First, the fact that you establish a block grant does not mean that you are going to lose Federal control. You need to follow through and see that the other regulations connected to it are also controlled. Second, by putting together a block grant, you do not limit the input or the desire of certain interest groups which have benefited under the categorical block grant program. You will continue to see pressure from those groups and you will have to deal with that if you are going to continue the use of block grants.

Third, in any block grant you will see a diversity out there in development. There are cities which are declining as well as cities which are growing, both face key problems. Also, there are large cities and small cities; they face different problems and have different capacities. We feel in the community development area the use of States as a means of helping small cities is certainly worthwhile.

I would also like to summarize a couple of the items we don't think the Federal Government can do to the block grant program. First, we don't think Federal aid should act as a safety valve to the State and local area. One of the things we have seen in our brief examination of the cities in this country is that annexation plays a key role here. Cities have to be allowed to match their boundaries with their social and economic boundaries. Since the fifties we have used that Federal aid as a safety valve to cut off that pressure. If you look back to the twenties, you will see in the East there is a great deal of annexation. That has stopped. Maybe we should look to annexation or a realinement of governmental responsibilities as a method for dealing with many of our urban problems.

Second, I want to emphasize that these programs cannot affect major trends and changes in metropolitan areas. A great deal of the emphasis has been on stopping the decline in central cities. Possibly that is not a bad thing. A great deal of debate is saying that decline in population is bad. I am not sure you could prove that. You have to see if central cities have a different role now in metropolitan areas.

The third item I will mention is that I do not believe you can smoothly run development programs from Washington. You are going to have to allow the locals, in particular the local elected officials, to make decisions.

The local chamber experience in Middletown, Ohio, is that local citizens can have an input and can play a viable role. Ultimately, however, you will have to look to the elected officials. That is why we support certain aspects of S. 1197, which the Senate has passed. It puts the emphasis back on the local elected official.

Our preference here is not to set up an elaborate application structure, but to go out after the funds are put in the community. We want to see if something actually happened, not if there is paperwork back and forth between a HUD area office and the field.

Finally, we support the system of block grants; however, we feel there should be clear national goals within these programs. For the

HUD program and CDBG program the emphasis should be on physical development and the elimination of slums and blight.

Thank you.

Senator DURENBERGER. Thank you for your testimony. Thank you both for summarizing your statements.

Let me try to address my first question to the both of you. Mr. Scott, would you respond first to the question? You indicated that one of the issues here—the main issue here—is who is going to determine how to use the funds. By "here" I mean in the context of this hearing.

I would agree with you that that is an important issue. I intend to broaden it. If there is so much money available in a community, who should be making some of these decisions?

In my own community there is a proposal to spend $235 million for 9 miles of urban freeway. Since 90 percent of that money is coming from Washington, people are not really dealing with possible alternatives to this modification of a freeway. They only deal with the effect on the upper-middle-class neighborhoods through which it will pass.

The Minneapolis Star had an article last night about the San Diego-Tijuana trolley. Only $6 million a mile is being spent for a light rail transit, compared to some much more expensive transit systems with which we are all familiar.

With regard to public investment and community development, I come to the conclusion that if the determination was always made at the State and local level—with State and local resources—we would have a lot more improvement for a lot less money. Would you argue with that proposition?

Mr. SCOTT. Let me see if I understand the question. If only State and local resources were used to make the improvements, the programs would be much more effective.

Senator DURENBERGER. Depending upon the availability of resources, could you do a better job of governing if it were your resources and your decisions—rather than, in this case, Federal resources and Federal guidelines or regulations, or both?

Mr. SCOTT. Well, I think, generally yes. My problem is that so frequently, at least in the past, the national objectives have come to localities in the way of Federal requirements which have not been financed with Federal dollars. Now if there is a Federal objective to be met, and can be met by improved resources at the local level, I think many of us would be very interested in that.

Senator DURENBERGER. What is the Federal objective in the CDBG program?

Mr. SCOTT. Well, I think there are several. The two basic ones are to revitalize some of the older urban areas, and to provide some benefits to people of limited income.

Senator DURENBERGER. Does Fairfax County get CDBG money?

Mr. SCOTT. Yes, sir.

Senator DURENBERGER. Is Fairfax County one of those older urban decaying communities?

Mr. SCOTT. As I pointed out in my initial remarks, in addition to the older areas there are areas in the country—particularly around the major cities—where the poverty population is spread throughout the community. In Fairfax we don't have a central city, as you know.

We do have a number of smaller areas where the Community Development Block Grant funds have been used very effectively. Those areas, in some instances, are rural areas—areas which might be called rural in the traditional sense of an urban area. In the sense that we look at it in our urban county, those areas are areas of specific need. They certainly contain blight, and they contain people of limited income. What we try to do is to address the needs where the people are.

Senator DURENBERGER. Is it fair to say—with regard to Fairfax County—that if the CDBG money was not available, you would not be able to meet the needs of the people you just described?

Mr. SCOTT. Let me say that I have been in the county a long time. The CDBG program has been extremely useful in providing resources to the county for the purpose of meeting some of the needs that we had not met in the past.

Senator DURENBERGER. In reflection, that was an unfair question to ask you. I hope the record shows that. I appreciate the evasiveness of your answer.

In your statement, you take the position that community development is a very broad government function. You would like to see it kept broad. You leave me with the impression that Congress should keep it broad, in order to pay for anything that falls within the community development context. That is, anything you—as a county supervisor—might suggest is important to community development. Is that a correct paraphrasing of your statement?

Mr. SCOTT. Well, I think we said two things. We don't object to income eligibility for the rehabilitation programs. We don't object to some type of limitation on the public service sector of the program—that is, the use of funds for services. What I think we are afraid of is that the thrust of the GAO study is toward heavier-handed regulation at the national level. We think that if you really did a scientifically valid study, you would determine that there are problems at the local level, that those problems are either being addressed or are fairly small in comparison to the overall benefits, and that we did not address the benefits by just zeroing in on problems. Sometimes they are only talking about one or two communities.

Mr. KELLEHER. Senator, our traditional position is that block grants represent an intermediate step for the responsibility of the service and the funding of the service. If you would take a look at block grants or revenue sharing from the government's point of view, you would have to see a structural weakness in that you are splitting the responsibility for spending the money from those raising the money.

By and large, that is not a good management principle. We have built a system under this, one that provides money in aid. To say "we are going to cut it off one day" would not make sense. You have to go through an intermediate step, I think.

Senator DURENBERGER. In your statement, you made two observations about the GAO report. You said that GAO correctly identifies social services as needs that can be met through other programs. You said the program, as proposed, should be that way. Where you disagree is exactly where Mr. Scott disagreed—on the further Federal restrictions. Is that correct?

Mr. KELLEHER. Yes.

May we go to your sundecks example?

Senator DURENBERGER. Yes. Now or later?

Mr. KELLEHER. I have done housing planning. I think, sitting here, it makes a lot of sense to say sundecks sound like boondoggles. But, what if you are rehabilitating a house that has a backslope and soils that are impervious? You have changed the runoff pattern, so you end up with a muddy clay backyard. Doesn't it make sense to provide a play area?

Senator DURENBERGER. Yes. Give me an illustration for new carpeting, burglar alarm systems, patios, and dishwashers. Put that next to people living with rats and with all the rest of the things they are enduring.

Mr. KELLEHER. I go to the kitchen then. Let's say you are taking a 1910 house that was cut into small apartments. Now you want to turn it into a three- or four-bedroom unit to serve the needs of a large family, which is more efficiently done through rehab than new construction. You have two 1950-style refrigerators. Does it make sense to leave them or replace them? Most of the people would say to replace them.

I do not discount the fact that there will be communities which will do some things that are questionable, if you give them the freedom. However, I also think you will find some communities that will do some exceptional things. The question is not the 3 percent there. The question is the broad middle group and what they are going to do.

Senator DURENBERGER. With regard to the middle group, how do we best meet their needs? That is the whole question on which we want this hearing to focus.

If you had $3.7 billion to commit to the needs of this country's poor, connected to urban decay, how would you meet those needs? Draw an appropriate distinction between the social services and fiscal development. When we get to the fiscal development side, first, we decrease the social services in order to cut back the government. We still have that $3.7 billion which we will try to somehow spread all over the country with a wide paint brush. When we have to do that, refrigerators and sundecks are hard to justify. Maybe we are only in transition here. If that is all the money we have, I would put it into shoring up people's thinking processes and finding ways to help the cities figure out better ways to deal with the problems of housing, water, transportation, and things like that.

We are looking for the National Government's role in community development. Is S. 1197 or CDBG the way for the National Government to respond to the needs of the people who find no other place to go except to this country's decaying cities?

Mr. KELLEHER. One of the things I think we point out—I don't know if it is in this statement or one of our other ones on the HUD budget—is a quote from Senator Lugar. He said, when he was a mayor the best thing HUD could have done was to not drive up his costs.

I think you have to realize that, with the $3.7 billion or whatever it is you are going to put into the Community Development Block Grant program, we have only a limited amount of funds. You are dealing with local problems. You are going to have to rely on the local officials to make some very difficult decisions. When you take billions of dollars and spread it across the 50 States, you get a very small amount of money at the local area. To say you will put them into a

given sense at the lowest area, you may do that, but it will not have any real effect. You may have to make a decision as to whether or not the best thing in the lowest area is a flexible rehab program. You may have to change some of the Chamber of Commerce's views. Maybe that is what you need to do. That is all we are offering. You have to trust that local decision.

I think it would be unfair to the Community Development Block Grant program to say it can solve all the problems, because it really can't.

Senator DURENBERGER. Do you want to make any additional comments, Jim?

Mr. SCOTT. I agree certainly with that. The block grant programs cannot, as you have implied, Mr. Chairman, solve all the problems. I think that the record, in the program's reasonably short period of time, is a good one at the local level. Success, to some extent, is in the eyes of the beholder, as is beauty. What may be success or improvement at the local level may not, in the larger survey of things from the GAO perspective seem to be success or improvement. I think we are contending that, if you will look at specific instances where communities and people from lower income areas may request what is their own priorities—with which maybe you and I would not agree—that evaluation of success may be different.

Senator DURENBERGER. I will quickly summarize, so you are not mislead in terms of my position. I think we can all uniformly agree. Even if we could get control of inflation here, a lot of these problems won't solve themselves. However, it will become easier for people—like Jim Scott and others—to act in a more responsible fashion. That might even include HUD. That is our objective.

My objective in the process—as I have tried to point out before—is to make sure that the $3.7 billion, which is left in the authorization after reducing it, is not just a continued gift to the counties, or to the cities. It does not really produce any effect. We might as well cut it out entirely. Or, just give it back in the form of General Revenue Sharing, or something like that. We are just playing games when we say that we will keep the community development role, and phase it out gradually. I have some difficulty with this and would prefer making the leap to where we should be.

Thank you very much.

[The prepared statements of Mr. Scott and Mr. Kelleher follow:]

STATEMENT OF THE HONORABLE JAMES SCOTT, SUPERVISOR, FAIRFAX COUNTY, VA., ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES, BEFORE THE SENATE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS, REGARDING OVERSIGHT OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, JUNE 3, 1981, WASHINGTON, D. C.

MR. CHAIRMAN:

ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES (NACo),* I WANT TO THANK YOU FOR INVITING US TO TESTIFY AS PART OF THE SUBCOMMITTEE'S OVERSIGHT HEARINGS ON THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM. I AM SUPERVISOR JIM SCOTT, FROM FAIRFAX COUNTY, VA., AND CHAIRMAN OF NACo'S COMMUNITY DEVELOPMENT STEERING COMMITTEE. WITH ME IS JOHN MURPHY, ASSOCIATE DIRECTOR OF NACo FOR COMMUNITY DEVELOPMENT.

LET ME SAY AT THE OUTSET THAT PARTICIPATION BY COUNTIES --- PARTICULARLY URBAN COUNTIES, OF WHICH THERE ARE CURRENTLY 85 --- IN THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM HAS BEEN A POSITIVE EXPERIENCE. THE PROGRAM HAS SERVED TO EXPAND THE ROLE AND RESPONSIBILITIES OF LOCAL ELECTED OFFICIALS, HAS FOSTERED CITIZEN INVOLVEMENT IN PLANNING FOR THE FUTURE OF THEIR COMMUNITIES, AND HAS PROVEN TO BE A FLEXIBLE TOOL FOR DEVELOPING STRATEGIES TO MEET LOCALLY DETERMINED OBJECTIVES FOR IMPROVING THE QUALITY OF LIFE FOR LOW AND MODERATE INCOME PERSONS.

MR. CHAIRMAN, NACo WORKED LONG AND HARD FOR THE PASSAGE OF LEGISLATION WHICH BECAME THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974, TOGETHER WITH SUBSEQUENT REAUTHORIZATIONS OF IT IN 1977 AND AGAIN IN 1980. PRESENTLY WE FIND

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* The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government.

The goals of the organization are to:

- improve county government;
- serve as a national spokesman for county government;
- act as a liaison between the nation's counties and other levels of government;
- achieve public understanding of the role of counties in the federal system.

OURSELVES DEEPLY INVOLVED IN LEGISLATION ADVANCED BY THE REAGAN ADMINISTRATION AND WHICH PROPOSES A NUMBER OF SWEEPING CHANGES IN THE COMMUNITY DEVELOPMENT PROGRAM. IN GENERAL, THESE CHANGES, MOST OF WHICH HAVE BEEN APPROVED BY THE SENATE BANKING COMMITTEE, ARE DESIGNED TO STREAMLINE THE PROGRAM BY REMOVING FEDERAL STATUTORY AND REGULATORY REQUIREMENTS AND INCREASING LOCAL DISCRETION AND DECISION-MAKING. TO A LARGE EXTENT THEY PROCEED IN THE OPPOSITE DIRECTION FROM RECOMMENDATIONS CONTAINED IN THE APRIL, 1981 REPORT OF THE GENERAL ACCOUNTING OFFICE, THE FOCUS OF THIS HEARING.

THE GENERAL ACCOUNTING OFFICE IN ITS REVIEW OF 15 ENTITLEMENT COMMUNITY DEVELOPMENT PROGRAMS (ONE OF WHICH WAS THAT OF AN URBAN COUNTY) SUGGESTS THAT COMMUNITY DEVELOPMENT FUNDS HAVE BEEN SPREAD TOO WIDELY THEREBY DILUTING THEIR IMPACT, THAT REHABILITATION FUNDS HAVE BEEN SPENT FOR QUESTIONABLE PURPOSES AND NOT PROVIDED TO THOSE IN GREATEST NEED AND THAT THERE IS INSUFFICIENT INFORMATION TO DETERMINE WHETHER FUNDS ARE PROPERLY SPENT FOR ELIGIBLE ACTIVITIES.

ON THE BASIS OF THESE FINDINGS GAO MAKES RECOMMENDATIONS FOR LEGISLATIVE CHANGE.

I WOULD LIKE TO COMMENT BRIEFLY ON THE GAO RECOMMENDATIONS. LET ME SAY, HOWEVER, AS I'M SURE THE SUBCOMMITTEE IS AWARE, THAT AN AMENDMENT EMBODYING THESE FOUR RECOMMENDATIONS WAS RECENTLY REJECTED (IN FAVOR OF A HUD STUDY OF THE MATTER) BY THE SENATE BANKING COMMITTEE AS IT MARKED UP S. 1197.

AS A GENERAL COMMENT MR. CHAIRMAN, IT IS CLEAR TO ME THAT THE GAO STUDY IS FILLED WITH SUBJECTIVE JUDGEMENTS ABOUT WHETHER COMMUNITY DEVELOPMENT FUNDS

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ARE BEING USED "CORRECTLY BY LOCALITIES". THOSE JUDGEMENTS MAY BE RIGHT, AND YET AGAIN THEY MAY BE WRONG. I THINK THAT MANY OF THEIR RECOMMENDATIONS GO RIGHT TO THE HEART OF THE BLOCK GRANT CONCEPT -- THAT OF MAXIMIZING LOCAL PRIORITY-SETTING AND DECISION-MAKING, RELATIVELY FREE OF FEDERAL SECOND-GUESSING AND REGULATORY RESTRAINT. THIS LOCAL FLEXIBILITY AND DECISION-MAKING, I BELIEVE, WAS WHAT THE AUTHORS OF THE 1974 ACT INTENDED.

INSTEAD OF MORE REGULATORY RESTRAINT AS GAO PROPOSES, WE MAY WELL NEED LESS, IF WE BELIEVE, AS I DO, THAT BLOCK GRANTS ARE AN EFFICIENT AND EFFECTIVE MEANS OF PROVIDING FEDERAL ASSISTANCE TO MEET NATIONAL OBJECTIVES, AND, IF WE TRULY TRUST LOCAL ELECTED OFFICIALS.

NOW TO MY COMMENTS ON THE SPECIFIC RECOMMENDATIONS:

1. THE NEED FOR CONCENTRATION ON FUNDS IN SMALL GEOGRAPHIC AREAS SO THAT VISIBLE IMPROVEMENTS CAN BE ACHIEVED.

THE CONTENTION OF THE REPORT IS THAT FUNDS SHOULD BE LIMITED TO A SMALL AREA SO THAT "VISIBLE" IMPROVEMENTS CAN BE ACHIEVED. THIS SUGGESTS THAT A MORE IMPORTANT PRODUCT OF BLOCK GRANT EXPENDITURES IS AN OBVIOUS AND IDENTIFIABLE PHYSICALLY IMPROVED PLANT, A SORT OF "BEFORE AND AFTER" APPROACH TO NEIGHBORHOOD IMPROVEMENTS. ALTHOUGH THIS MAY BE MORE DESIRABLE AND QUANTIFIABLE FROM A GAO AUDITOR'S POINT OF VIEW, IT IS UNREALISTIC IN MANY COMMUNITIES. LOW AND MODERATE INCOME INDIVIDUALS ARE OFTEN DISPERSED AND SHOULD NOT BE DENIED ASSISTANCE SIMPLY ON A GEOGRAPHIC BASIS.

AS TO GAO'S CONTENTION THAT FUNDS ARE SPREAD TOO THIN I WOULD ONLY SAY THAT IT'S TRUE THAT POLITICS OFTEN DECIDE FUND ALLOCATION. BUT WHAT'S WRONG WITH THAT,

SO LONG AS THE BENEFICIARIES ARE LOW AND MODERATE INCOME PERSONS, AS IS THE CASE IN MY COUNTY AND MOST OTHERS. POLITICS OUGHT TO CONTROL THE LOCAL ALLOCATION OF FUNDS FOR IT IS THE TRADITIONAL AMERICAN FORM OF CITIZEN PARTICIPATION AND RESPONSIVENESS TO CITIZEN NEEDS.

2. REDUCING THE LIST OF ELIGIBLE ACTIVITIES, PARTICULARLY PUBLIC SERVICES, SO THAT FUNDS CAN BE USED TO MEET CITIES' MOST URGENT REVITALIZATION NEEDS.

HERE AGAIN WHO IS TO SAY WHAT THE LOCALITIES' MOST URGENT NEEDS ARE, BUT THE LOCALITY AND ITS CITIZENS? I HAPPEN TO THINK THAT MAKING PUBLIC SERVICES AN ELIGIBLE USE OF BLOCK GRANT FUNDS WHEN SUCH USE IS LIMITED (AS IT IS IN PRESENT REGULATIONS) TO NEIGHBORHOOD STRATEGY AREAS IS A GOOD ONE. THE EXISTING LIMITATIONS HELP INSURE THAT THE CD PROGRAM REMAINS PRIMARILY A PHYSICAL DEVELOPMENT/REDEVELOPMENT ONE, BUT FLEXIBLE ENOUGH TO ACCOMMODATE RELATED NEEDS.

3. REQUIRING INCOME ELIGIBILITY LIMITS FOR BLOCK GRANT SUPPORTED REHABILITATION.

MR. CHAIRMAN, I'M VERY SURPRISED TO LEARN THAT SOME COMMUNITIES APPARENTLY DO NOT EMPLOY INCOME LIMITS FOR BLOCK GRANT-SUPPORTED REHAB. AT A RECENT MEETING OF 30 URBAN COUNTIES WE ASKED HOW MANY DID NOT RESTRICT REHAB ASSISTANCE TO LOW AND MODERATE INCOME PERSONS. ALL SAID THEY HAD SUCH A LIMITATION.

4. LIMIT ELIGIBLE REHAB WORK, SPECIFICALLY PROHIBITING NON-ESSENTIAL AND LUXURY ITEMS.

I WOULD CERTAINLY AGREE THAT REHAB WORK SHOULD NOT INCLUDE LUXURY ITEMS OR OTHER AMENITIES, ALTHOUGH I WOULD SUSPECT THAT THERE WAS A REASON FOR EACH OF THE EXAMPLES GAO FOUND. CERTAINLY, TO THE EXTENT POSSIBLE, REHAB WORK SHOULD BE CONFINED TO BRINGING PROPERITIES UP TO CODE. SOME ACTIVITIES, SUCH

AS NEW GUTTERS AND A FRESH COAT OF PAINT, WHICH COULD BE VIEWED AS AMENITIES BY SOME, MAY WELL BE CRITICAL IN WINNING COMMUNITY ACCEPTANCE OF A REHAB PROJECT, OR IN PRODUCING "VISIBLE" IMPROVEMENTS IN A NEIGHBORHOOD THAT GAO SUGGESTS ARE SO IMPORTANT. HERE AGAIN I THINK YOU HAVE TO TRUST LOCAL OFFICIALS.

MR. CHAIRMAN, AS YOU CAN SEE I, AND MY COLLEAGUES IN NACo FAVOR BLOCK GRANTS, SUCH AS COMMUNITY DEVELOPMENT. IN CONCEPT AS WELL AS REALITY THEY MUST REFLECT A COMMITMENT TO MAXIMIZING LOCAL FLEXIBILITY AND DECISION-MAKING IN PURSUIT OF BROAD NATIONAL OBJECTIVES. I DO NOT BELIEVE THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM SHOULD BE FURTHER CONSTRAINED AS GAO RECOMMENDS.

THANK YOU FOR YOUR CONSIDERATION OF NACo'S VIEWS.

Statement
on the
Comptroller General Report
The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities
before the
Subcommittee on Intergovernmental Relations
of the
Senate Governmental Affairs Committee
for the
Chamber of Commerce of the United States
by
William D. Kelleher
June 3, 1981

I am William D. Kelleher, Associate Director for Construction, Housing and Community Development of the Chamber of Commerce of the United States, on whose behalf I am appearing today. The U.S. Chamber is the world's largest business federation comprised of more than 135,000 businesses, chambers of commerce in the United States and abroad, and trade and professional associations. On behalf of our members, we welcome this opportunity to express our views on how the federal government can best contribute to the revitalization of our nation's cities.

The single most important thing the federal government can do to restore our cities is to return our national economy to a condition of health and strength. A vibrant expanding economy generating new jobs and additional tax revenues helps reduce the demand for government welfare services at the same time it provides the means to support a social safety net for the truly needy and to build and maintain the public facilities required by all. Efforts to restore our cities through a complex system of subsidies and grants have failed and the shifting of resources from the private to public sector to pay for these and other federal programs has robbed our economy of its vitality, endangering our capacity to compete in world markets.

Control of federal spending has been for years a major objective of the U.S. Chamber, and is currently a top priority in our Let's Rebuild, America program. This program offers concrete proposals that can help our country bring inflation under control, rebuild our economic base, regain our position of international leadership and rekindle confidence in our country's basic institutions. This program's comprehensive recommendations are summarized in the publication, Let's Rebuild, America, which we are happy to make available to this Subcommittee.

The current state of our economy makes it imperative that we review current spending programs not for the purpose of dismantling programs for the truly needy, but rather as a systematic review of fiscal priorities designed to eliminate ineffective programs and improve the efficiency and effectiveness of those we retain.

President Reagan's Program for Economic Recovery, which the U.S. Chamber endorses in total, contains recommendations on how numerous specific aid programs can be shaped into a system of block grants. The U.S. Chamber supports these proposals to allow localities to continue to provide the services they need at a reduced cost to the nation's taxpayers by eliminating red tape and duplication.

The Community Development Block Grant program which started in 1974 was a pioneer in the use of the block grant approach. However, since its conception, it has become entangled in a web of application requirements, numerous regulations and the competing demands of various special interest groups. It is time to return this program to its original purpose of providing units of local government with assistance in meeting their physical needs based on local planning and decision-making.

Key Demographic Trends

Traditionally, our central cities and their surrounding metropolitan areas have been centers of population growth, but in the 1970's this trend changed. The nation's fifty largest metropolitan areas grew by only 7 percent during the 1970's which was less than the 9 percent growth experienced by all metropolitan areas. During the 1970's, it was rural, nonmetropolitan areas that were the centers of growth. These areas experienced a 15 percent increase in the 1970's.

However, one segment of the nation's population continues to increase in our cities and urban areas. The number of central city residents living in poverty increased dramatically during the seventies. Table I shows that both the percentage and absolute number of poor living in the cities increased. At a time when the total number of people in poverty remained constant on the national level, cities gained over a million more poor.

Table I

Rise in Central City Poverty, 1969-1978

Persons below poverty line (in 000's)	1969	1978
TOTAL	24,000	24,000
Non-metropolitan	11,000	9,000
Metropolitan	13,000	15,000
outside central city	5,100	5,800
inside central city	7,900	9,200
PERCENTAGE		
TOTAL	100	100
Non-metropolitan	46	38
Metropolitan	54	62
outside central city	21	24
inside central city	33	38

Population in the Fifty Largest Metropolitan Areas

While the nationwide population totals represent a bleak picture for cities, there was significant regional variation. In looking at the top fifty metropolitan areas we see places like New York that lost almost a million people matched by places like Houston that gained almost a million people. In the Northeast, the central cities of all the largest metropolitan areas lost population, but in certain areas like Philadelphia and Albany-Schenectady-Troy, the suburban areas experienced substantial growth. However, in New York, Boston, Pittsburgh, Newark and Buffalo, both the city and the surrounding suburbs lost population. A similar pattern existed during the 1970's in the North Central region of the nation. There was only one central city, Columbus, Ohio, that experienced any population growth and this came about through annexation. The total population growth for the 11 largest metropolitan areas in this region was only 40,000 people during the decade of the seventies. However, the suburbs of all 11 areas grew.

In the South, the overall picture is one of growth. Seventeen of our largest metropolitan areas are now in that region. As a group, these areas

gained some 4.2 million residents during the 1970's. Every metropolitan area grew. However, significant differences were experienced by various cities in this region. Cities such as Houston and Dallas-Fort Worth experienced substantial growth while the cities of Baltimore, Atlanta, New Orleans, Louisville, Birmingham and Washington, D. C. lost population. Clearly it was the new cities of this region that were growing and those experiencing the most dramatic growth such as Houston and San Antonio were annexing substantial new areas. The suburban areas of all the largest southern metropolitan areas grew by large percentages ranging from places such as the suburbs of Ft. Lauderdale-Hollywood which grew by 97 percent, to a 12 percent increase for the Washington, D. C. suburbs.

The West now has 12 of the 50 largest metropolitan areas in the nation. These large urban areas are growing even more rapidly than those in the South. Nine of the twelve grew by 20 percent or more during the 1970's. Of these rapidly growing areas, Pheonix gained over 500,000 people, while San Francisco-Oakland gained the least, slightly less than 120.000. Five central cities in this region actually lost population, but annexation helped cities such as Anaheim-Santa Ana-Garden Grove and Pheonix grow. All the suburbs in this region grew.

While metropolitan areas throughout the country experienced significant population change, there was also major growth in the number of housing units built in urban areas. In fact, the 50 largest urban areas in the nation added more housing units than people during the seventies. While population increased by 6.7 million people, the number of housing units expanded by 7.6 million units. Even in the Northeast, almost a million units were added to the housing stock, and while all central cities in that region lost population, five gained housing units. From this trend, we can see there is a remarkable economic strength in the large cities of this nation.

Based on this demographic analysis, we can begin to draw two important policy conclusions for dealing with our nation's cities. First, not all cities are facing the same problems. Some are experiencing the difficulties that come from decline, while others are facing problems brought by growth. Second, those cities generally experiencing the largest increase in population are doing so through annexation. Allowing our central cities political boundaries to match their social and economic boundaries should be an important urban policy.

Federal aid to cities should not be a safety value that assists states and localities in isolating central cities from further geographic growth.

Cities and Changing Regional Economics

Many of the problems of our declining Northeastern and Midwestern cities can be traced to shifts in our regional economic mix. Between 1966 and 1979, the Northeast lost 788,000 manufacturing jobs while the nation gained more than 2.3 million. This trend reflects the aging of the manufacturing activities that took place in this region as well as those throughout the traditional manufacturing belt in the nation that stretched along the Great Lakes and along the eastern coast from New England to Baltimore.

As the focus of our nation's economy shifts from the 19th century industrial revolution to a technology and service-based economy, the cities in the older manufacturing belt will begin to contract as their share of the nation's economic base declines.

Part of the economic decline in this region can be traced to three major factors. First there is the simple process of industry aging over the product cycle. Many of the industries located in the Northeast and Midwest have matured to the point of saturating their markets. Also, as an industry goes from its initial innovative stage to the point when its production techniques become standardized, the industry becomes more capable of moving from one region to another based on responsiveness to market location, labor costs and business climate. An example of this can be seen in the apparel industry that moved from the Middle Atlantic states to the South and West during the 1970's.

Matching this maturing process in the industrial base is the decline in the business climate and growth in public sector expenditures in older areas. Many of the states and localities in our older manufacturing regions display higher levels of taxation and government activity. For example, in New York State, per capita state expenditures are 40 percent above the national average while per capita income is only 4 percent above the national average. Of the 14 states that passed some form of tax limitation between 1978 and mid-1980, 13 were located in the South and West, regions already identified with lower taxes than those of older regions. Another indicator of this tendency is that between 1954 and 1973 the rate of growth in combined state and local tax burdens grew faster than the national average in our older manufacturing states and slower than the average in our newer manufacturing regions.

TABLE II

Regional Age and Industrial Growth, 1966-1979

Area, in order of 1909 share manufacturing jobs	Population share in manufacturing 1909	Percentage Change in manufacturing jobs, 1966-1979
New England	17.2	- 3.2
Middle Atlantic	12.3	-15.5
East North Central (lakes)	9.0	- 1.3
(U.S. Average)	(7.7)	(+ 8.0)
Pacific	5.7	+25.2
South Atlantic	5.5	+20.6
West North Central	3.5	+20.0
East South Central	3.3	+26.8
Mountain	3.1	+71.8
West South Central	2.5	+51.7

Finally, the ability of a region to serve as a seedbed for new industries and innovation is a key to its ability to sustain growth. When our economy was based on heavy manufacturing, the strength of the machine tool industry in our older industrial centers gave them a key advantage in sustaining their economic growth through the creation of new products. Now, as our economy becomes more science and technology-based, those areas relying on machine tools and heavy industry are at a relative disadvantage in terms of growth potential. However, a region such as New England has replaced its loss in manufacturing jobs (see Table II), which left that region stagnating for almost 50 years, with a reorganized economic structure based on high technology utilizing its knowledge base of research and education centers. This new industrial base will require fewer people than the traditional manufacturing industries previously located in that region.

What is a Healthy City?

This shift in activity in New England must cause us to ask if decline in population or any one economic activity is actually bad for a given area. In recent years we have focused our urban policy on the losses experienced by certain areas and how to combat those losses. Our policy has failed to reverse these trends despite large outlays of money at the federal, state and local

levels. We have allowed ourselves to be trapped into a narrow concept of cities focused on rigid political boundaries and avoiding the consequences of economic and social change. We seem to have forgotten that first we must create wealth before government can re-distribute it.

The most important thing the federal government can do for our nation's cities in the 1980's is restore our economic health and put the economy on a path to increased growth. In a growing economy, our older cities will be better able to fit into a changing national economy either through a retrenchment among the most efficient of its traditional activities or through growth into new economic activities. Trying to freeze our older cities in place at any given age or level of economic activity will not work.

Provision of Basic Physical Services

One problem facing all cities across the country is the provision of basic physical services such as solid waste disposal and the building and maintenance of needed public infrastructure. In growing cities like Houston and the new energy boom towns of the West, the need for sewage systems and roads is growing more rapidly than the ability of local government to respond.

In our older cities, the combination of delayed maintenance and the lack of incremental improvements on existing city facilities has left numerous cities in near crisis situations. For example, because of inadequate sewer repairs, 1,000 homes in Kansas City, Missouri regularly flood when it rains. Approximately 80 percent of Buffalo's water system is 80 years old. Excluding New York City, the bill to repair the aging public facilities in the Nation's 50 largest cities alone may cost $30 billion. Yet, gross capital expenditures have fallen from 29 percent of total state and local spending in 1965 to 14 percent in 1977. Capital replacements and repairs cannot be put off indefinitely. Ultimately, the failure to provide adequate physical services will increase capital obsolescence in our cities and increase the pressures for urban sprawl and central city decay. Clearly, there is the need to focus aid to cities into these essential physical facilities.

GAO Report and Housing and Community Development Amendments of 1981

The General Accounting Office (GAO) report, The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities, highlights two main issues facing the Community Development program and block

grants in general. The GAO calls for a reduction in the number of eligible activities allowed for funding under the program and in particular removing the funding for social services under the Community Development Block Grant (CDBG). GAO also calls for tighter targeting in the use of funds in terms of people, places, and activities using CDBG funds for housing rehabilitation and neighborhood revitalization.

We agree with the GAO about funding social services under the Community Development program. This program as proposed in its original form should focus on the physical needs of cities and urban places. Given the large needs and small amount of funds available under this program, it is unrealistic to expect it to fund all the needs of a given city or neighborhood. There is a need to recognize the limits of all government action in revitalizing a community.

However, we disagree with GAO in terms of its recommendations to establish further federal restrictions in the use of block grants funds in terms of neighborhood revitalization and housing rehabilitation. While GAO raises important equity questions concerning targeting funds to the lowest income households and areas and limiting the use of federal funds to essential repairs, we believe that the federal government must rely on local planning and decision-making in this field. Local elected officials must be given the authority to establish programs that fit the unique circumstances of their community. Restoring cities and neighborhoods is ultimately a local responsibility. While the health of cities has national implications, in a decentralized and diverse country the federal government must rely on state and local government to manage our cities.

The Housing and Community Development Amendments of 1981 (S. 1197) is an important step in improving the operation of the CDBG program. By tightening the eligibility requirements for Section 8 Housing Assistance, through limiting aid to those who earn 50 percent of the area's median income rather than 80 percent as provided under the current program, the bill focuses this main form of federal housing assistance on the neediest segment of the population. By reforming the citizen participation requirements in the preparation of CDBG application, the bill will limit the pressure put on local elected officials and administrators to spread the use of CDBG funds across wide areas of any given locality. Finally, the bill proposes stressing a performance evaluation

approach rather than the application process as the means of controlling the use of funds. Under the existing program, there are extensive application reviews for all types of communities receiving CDBG funds. Under S. 1197, the emphasis would be on results rather than plans and proposals. Whether or not a locality has correctly linked economic development with a physical improvements program with housing production, preservation and rehabilitation will be judged not on the theory of a local application or federal regulation, but on the outcome in a city or neighborhood. The success or failure of a program will reflect local objectives and willingness to work. The Chamber believes this is the most effective approach for managing this type of program.

Chamber Position

The Chamber supports the use of a block grant approach in providing aid to our nation's cities. Within broad program areas, states and localities should be given broad discretion in the use of these funds. Within the Community Development Block Grant programs, the emphasis should be on physical improvements. Social services should be funded through other federal block grant programs or local funds.

The most important thing that the federal government can do for cities is to return the national economy to a path of increased economic growth which reduces the demand put on government for social and welfare services while at the same time producing added tax revenues to support the truly needy, and to build and maintain necessary public services.

As Congressman Clarence J. Brown noted in his introduction to the Joint Economic Committee special study on state and local finance:

> The way to break the dependency cycle now being perpetuated in our declining cities is to encourage the creation of productive, private sector jobs with a future. There is no better way to ensure that this will happen than to put the economy on a more rapid growth trajectory. This is the only true jobs-to-people strategy; a strategy that requires that economic policy focus on pulling up real incomes at the same time it reduces upward pressures on costs of production. A policy prescription of reduced monetary growth, lower taxes, lower Federal spending, and reduced regulatory burdens is the way to bring this about.

Senator DURENBERGER. As usual, we have worked our way through the elected and paid professionals. We are now at the citizens' level. This is the way government is supposed to work.

Our next panel represents the National Citizens' Monitoring Project of the Working Group for Community Development Reform. With us today is Maybelle Bennett from the national organization; Addie Powell from Augusta, Ga.; Jean Smith and William Birdine from Nashville, Tenn.

We will take your statements in the order I have introduced you.

Ms. Bennett?

TESTIMONY OF MAYBELLE BENNETT, WASHINGTON, D.C.; ADDIE SCOTT POWELL, AUGUSTA, GA.; JEAN SMITH AND WILLIAM BIRDINE, NASHVILLE, TENN., ALL REPRESENTING THE NATIONAL CITIZENS' MONITORING PROJECT OF THE WORKING GROUP FOR COMMUNITY DEVELOPMENT REFORM

Ms. BENNETT. I am here to introduce our local citizen monitors. I would like to take 2 or 3 minutes to tell you about our project. Then I will be here to answer any questions you have. I will open it up for our citizens to talk.

The Working Group is a coalition of more than 75 national, regional, and local organizations which have worked together for the last 4 years on a series of issues related to reforming and strengthening the effectiveness of the block grant program.

Among its members are the National Urban League, the National Council of LaRaza, the League of Women Voters, the National Low Income Housing Coalition, the Leadership Conference on Civil Rights, the Legal Services Task Force of CDBG, and the Center for Community Change.

Over the last 30 months, the Working Group has been conducting a far-reaching evaluation of the impact and operation of the block grant program. During its first years the National Citizens' Monitoring Project has evaluated how the program is actually operating and what the record of performance shows so far in over 70 entitlement jurisdictions throughout the Nation. Among those jurisdictions have been 9 of the 10 cities with the largest entitlement grants, a cross-section of other entitlement cities, and several urban counties.

In these jurisdictions, the Working Group has entered into subcontracts with citizen organizations—Leagues of Women Voters, civil rights and community groups, and citizen coalitions—under which those groups administer a series of research instrument programs developed by the Project. Each group reviews local CDBG applications and grantee performance reports, conducts a thorough review of information in the jurisdiction's files to learn more about each activity, and performs a basic check on whether local governments have complied with Federal requirements on a number of issues. The groups then conduct in-depth studies of housing, economic development and other programs financed with CDBG funds.

The Monitoring Project's work has been supported under a grant from the Community Services Administration under title IX of CSA's enabling legislation which mandates that that agency evaluate the impact of non-CSA programs upon the poor.

The Monitoring Project has two features which are of considerable importance in policy terms. First, it offers the Federal Government the opportunity to learn much more about the citizens' view of how the program is operating.

This information supplements other studies and gives organizations, representing residents of blighted areas and low- and moderate-income people in general, an opportunity to conduct a rigorous assessment of this major program.

Generally, you get reports on major Federal programs from the agencies themselves or city administrators, all of which are from the top down. This kind of monitoring gives you a program assessment from the bottom up.

Second, the Monitoring Project represents the Federal Government's first major experiment with a relatively new and extremely promising form of citizens participation. I am sorry that Senator Danforth is not here—so that he could get his definition for citizen monitoring and assessment.

The organizations which make up the Working Group strongly believe that citizen monitoring—with adequate funding, a careful research approach, and sufficient training and technical assistance—can make a crucially important contribution to efforts to make government programs more effective and useful. If Federal programs are to be decentralized, if goals are to be set and responsibilities laid at the local level, it is essential that serious attention be given to strengthening the ability of local citizens to monitor and evaluate those programs and to work with local governments to improve them.

I am going to stop here and let Ms. Powell and Mr. Birdine take over.

Senator DURENBERGER. Thank you.

Ms. Powell?

Ms. POWELL. Thank you for giving me the opportunity to be here to represent that little man about whom we will be talking and who has not had a chance to say anything about what he has gotten out of CDBG.

I am Addie Scott Powell, coordinator of Bethlehem Area Community Association, Inc.—popularly called BACA—which is a community-based organization in the Bethlehem Neighborhood Strategy Area [NSA] of Augusta, Ga. As chairman of the Inter-Community Organization Council [ICOC], I represent a coalition of community organizations from four predominantly black NSAs in Augusta: Bethlehem, Laney Walker, Turpin Hill, and Sand Hills. I am one among 31 monitors who read reports and try to keep a finger on the rules of CDBG throughout this transition.

This statement is less an introduction of my credentials to you, but more a presentation of a critical constituency within a jurisdiction which has been the recipient of over $14 million in Community Development Block Grants in the past 4 years. Augusta has been divided into eight NSAs, each including a high percentage black minority. In six NSAs the larger majority of low-income residents are black; in four, 99 percent are black minorities, NSAs are documented for CDBG by eight different designated census tracts including moderate and above-income residents as well as low-income residents.

Finally, it is well to note that the predominantly black NSAs in this jurisdiction are unique, as each NSA in this country must be. In

the first place low-income residents in Augusta have a history of residency that span 30 to 40 years. Many families have lived in the same community for over 75 and 100 years; even renters have lived there for over 30 years.

The foregoing background statements have been given here to bring into sharp focus some of the major problem areas in the CDBG program that have moved jurisdictions, such as ours, off target from the purpose of CDBG in the development of low- and moderate-income communities. Low-income residents in the city of Augusta have received little or no benefit from the abundant years of CDBG funding, and low-income communities have remained virtually unchanged.

Failures of jurisdictions to adequately address benefits to low-income communities have not been in the design of the guidelines for CDBG or in the unfair and inequitable targeting of Federal funding. The failure is due to the resistance of local governments to comply with those guidelines under which they have contracted as grantees, and the reluctance of area HUDs to follow through with effective oversight and to assure compliance. For example, among the top priorities among NSAs is housing rehabilitation, coupled with strong code enforcement. In the Bethlehem neighborhood 1,856 inspections were completed during the period of August 5, 1979, through July 31, 1980; however, no rehabilitation had been initiated. Only four houses have been rehabilitated among black minority NSAs within this period, none of which were located in the Bethlehem community. In that NSA 405 housing units were below standards. In 1979, $250,000 was available for rehab financing; in 1980, $150,000 was added to that sum.

Low-income residents have been reluctant to apply for rehab assistance. Reasons for this have been obvious. Some who applied were rejected because they could not financially present themselves to prevailing bank requirements for loans. With a median income of $3,049 this fact is more to be expected than not. Yet the city of Augusta does not encourage and has been reluctant to release funds for grants. To solve this problem and "use all that money which is just sitting there," income levels were raised in 1981. With a nice nest egg stored away, a slush fund will be readily available for moderate-income residents. The blight of low-income communities will remain virtually unchanged.

In our jurisdiction a good portion of CDBG goes into sewer separation and storm sewer rehabilitation. Little or no sewer improvements within minority NSAs have been discernible. It should be understood that because a project is located in an NSA, its benefits to low-income residents are not assured. A good example is an amount of $600,000 for a sewer separation in the Laney Walker NSA. One area of that census tract which included this NSA and whose residents would benefit directly was the Medical College of Georgia, not the low-income residents. The city does not specify which portion of an NSA area within a census tract would benefit and the area HUD has not urged justification in the matter. Yet, throughout the low-income NSAs water stands from heavy rains in streets paved without sewers or drains. The average expenditure for sewer projects is approximately $1 million each year in CDBG funds.

In 1977 a 3-year plan was submitted for all NSAs within the jurisdiction. The plans submitted were composites of recommendations

and compromises by both the city represented by the Augusta Planning Commission and the low-income residents. It was not until June 1980, however, that those plans were approved by the city council. In a CDBG committee meeting in 1981 one resident from Sand Hills, in complaint against repeatedly ignored projects, addressed that committee in terms of the 3-year plan submitted to HUD in 1977. She was told by a city official, "Oh, you can't go by that, that's like a wish book." It becomes obvious that plans submitted for the purpose of establishing eligibility are for that purpose only. Follow-through is not considered with any degree of serious intent. This suggests the need for constant oversight and stronger controls from the Federal level if the purpose for which CDBG was intended is to be realized.

Perhaps the most disturbing fact is the constant submission of good plans, proposals and recommendations by low-income NSA residents. These proposals and plans have been ignored each year without any reason given or any explanation of their final disposition. Over 90 percent of these requests address problems surveyed and agreed upon in the 3-year plan submitted in 1977.

Typical of the projects most likely to always succeed are requests for azaleas and dogwood trees for downtown Augusta and middle-income neighborhoods at the cost of $200,000, 21 streets lined with quaint historic lights, facade restoration, passive meditation parks, and over $1 million annually for sewer restorations.

Although the jurisdiction in which I live has expended over $1 million each year on sewer projects, streets, and drains, the low- and low-moderate-income neighborhoods are still plagued by flooding, and antiquated drainage systems with festering mosquito larvae, insects, and sewer rodents.

Whereas the frills of beautification plans offer attractive surface appeal for tours of the city, low-income neighborhoods are blighted with dilapidated housing and poor code enforcement, leaving low-income residents to resort to the use of rat poison and to seal holes from rain, weather, and vermin. Whereas the thought of beautiful parks lined with azaleas can brighten the paths of motorists in their passage through the ugly sites of neglect which prevails in low-income neighborhoods, it is ridiculous to conclude that low-income people have a need for a passive park of leisure. The working poor have no leisure, but they do plead persistently for playgrounds for their children and young adults.

Historic lights at the cost of $1,400 each in affluent-dominated areas of the city do not illuminate the dark areas of low-income areas stalked with crime.

Finally, one must conclude, if there is a failure in the CDBG program, it is the inadequacy of local governments to develop meaningful priorities in the elimination of blight and slums. There is an absurd obsession for ostentatious frills that leads to chronic abuse and waste of community development funds.

From the focus of the problems presented here, we have some recommendations to suggest several directions for CDBG in the future. We therefore recommend:

One, of the abuses of Federal spending by local governments, among the most repulsive for an American citizen to witness is the reckless manner in which CDBG funds are squandered, and the colossal insult-

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ing attitude in which the Federal Government is permitted to be ignored and deceived by blatant disregard of its laws and regulations.

Two, one must consider CDBG not only as a contract between the Federal Government and local jurisdictions but most importantly as a contract of confidence between the taxpayers. Those taxpayers who don't have income shelters or writeoffs are taxed hundreds of dollars each month in faith. They trust that those dollars will not be squandered, but will be spent and for the purpose intended.

Three, targeted NSAs should be crystal clear in routing benefits to low-income communities. The projects should be targeted to those low-income areas within specific census tracts.

Four, if grants to benefit low-income communities cannot be assured through a stronger system of control by the Federal Government, it seems fair to return all such funding to the taxpayer and to discontinue such Federal funding to States and/or local jurisdictions.

Five, HUD should seriously explore and investigate a more direct method of funding directly to communities through recognized organizations working within the communities. This would assure more effective targeting, would be less expensive, and would certainly reflect a greater degree of progress.

Six, incentive supplements should be available for those jurisdictions that can document an improved performance for the poor, as well as a better implementation and targeting of community development activities to lower income persons.

It is a pleasure to have had a chance to talk to you to get some of these things off our breasts.

We are in accord with the GAO report, because it does in a real sense reveal some of the many problems. However, it is mild compared to what we are really going through. For some low-income communities, GAO is really a song. GAO has been liberal and considerate. We invite you to take a walk with us. We have asked HUD to do that and they won't. We asked the city fathers to do this and they would not. Not through paper; through the communities.

Thank you.

Senator DURENBERGER. Thank you, Ms. Powell.

Since time has expired, Ms. Smith, why don't you take 5 minutes of my time.

Ms. SMITH. It might take me longer than that. Mr. Birdine is the chairman of the NCOPCD task force. He will make the presentation.

Senator DURENBERGER. I was just informed that we have a vote coming up shortly.

Mr. BIRDINE. I will be brief.

Senator Durenberger and members of the subcommittee, my name is William Birdine. I am chairman of the CD task force of the Nashville Communities Organized for Progress [NCOP]. NCOP is an organization of citizen organizations working on neighborhood and citywide issues. One of the most important issues with which we have been concerned is the Community Development Block Grant program. As a part of the National Citizens' Monitoring Project, we have not only learned from our own involvement with the CDBG program in Nashville, but also have benefited from the experience of organizations in many other cities participating in the Project.

The people in our organization in Nashville are dealing with a number of issues with one common goal: improving the quality of life in their neighborhoods. They are predominantly people of low- and moderate-income—precisely the people the CDBG program was intended to serve.

When something happens to adversely affect our neighborhoods, we cannot get it changed by simply calling up an influential person, and saying, "Do something about it." The people in NCOP get what they need for their neighborhoods by organizing. And it is an uphill fight all the way. To begin with, the neighborhoods in which we live have either been the objects of deliberate actions which have weakened them in some way, or they have suffered from neglect and have been allowed to deteriorate.

Changing this situation requires all the deliberation and constructive action that citizens and public officials can muster. If Congress and local officials take seriously the conclusion of every expert in this field—that 90 percent of the housing stock which will be available in the year 2000 exists today—then they must take seriously the need to save those houses and the neighborhoods in which they are located.

A second part of NCOP's uphill fight is that there are many hands out to pocket the money which was intended for our neighborhoods. The developers and other powerful interests are like a swarm of locusts. Their actions often devastate our neighborhoods, and yet they do not hesitate to turn around and devour the money intended to undo the damage.

Tennessee has serious limitations in its tax base, and Nashville has a regressive and inadequate tax structure. The shortage of State and municipal funds means that Federal funds are in great demand for use in "filling in the gaps." This is particularly true when the projects that the city wants are of questionable value or involve a large element of political favor. The whole situation creates a tremendous amount of pressure on local officials to circumvent the intent of the current regulations on targeting CDBG funds.

In Nashville—and I am sure in other cities—the city tends to use the presence of low- and moderate-income people in an area to justify a project which will primarily benefit higher income groups. Some recent examples will illustrate this tactic.

In one neighborhood, the presence of a sizable number of low- and moderate-income families with deteriorating housing was rightly used to justify its designation as a Neighborhood Strategy Area. The city administration then proposed to spend more than 60 percent of the site improvement funds for that NSA on the construction of a truck bypass which would have, supposedly, alleviated truck traffic in the residential portion of the neighborhood. However, NCOP was able to determine that the bypass would actually aggravate the problem with truck traffic in the NSA, while eliminating truck traffic from a small college campus adjoining the neighborhood. It turned out that the city administration owed a favor to the college and saw this as a way to repay it without tapping local revenues. Without the targeting provisions of the current CDBG regulations, it is unlikely that the citizens would have been able to stop this clear abuse of CDBG funds.

In another case, under the guise of slum and blight clearance, the administration in Nashville has undertaken some "cosmetic surgery" on

certain downtown streets. A preoccupation with brick streets and sidewalks has cost the CDBG program a whopping $900,000 for just a short stretch of this fancy work, with special bricks and bricklayers brought in from New England for the project.

Another downtown project will provide grants to private developers for refurbishing the fronts of old warehouses. The main beneficiary in this case will be a large property owner who was formerly the mayor's campaign finance chairman. What is worse is that the private sector had already begun redevelopment of this particular area and undoubtedly would have continued the work without direct government assistance. The value of the properties in this area will be additionally enhanced because of yet another project partially funded with CDBG moneys—the Riverfront Park. The total cost of this park is not even known.

All of these projects are examples of the siphoning off of funds desperately needed in Nashville's low- and moderate-income neighborhoods—siphoning them off to pay for the mayor's pet projects or for public works projects that should have been funded out of locally generated revenues.

Another stumbling block to effective targeting of CDBG funds in Nashville has been the Metro Council. Many of its members are convinced that CDBG funds should be treated just like General Revenue Sharing money. In 1977, the council came only a few votes short of applying the entire fourth year CDBG allocation to water and sewer projects. It was only strong citizen pressure and the prospect of certain rejection of the application by the HUD area office that caused that particular initiative to fail. Despite the relatively weak targeting requirements of the current regulations, and the evasions of legislative intent at the local level, Nashville's CDBG program could be much worse.

In fact, it is much improved since the first 2 or 3 years of CDBG. Aggressive citizen participation has accomplished a good deal in the way of forcing the city to pay more—still not enough—attention to the targeting provisions of the current regulations. Once the funds are designated for a specific neighborhood, you can bet your bottom dollar that the citizens in that neighborhood are going to do their best to make sure the city spends the money for what the neighborhood needs most, and spends it efficiently. At least in Nashville, the decentralizing effect of the targeting regulations results in more effective citizen participation and citizen monitoring. This, in turn, helps to improve the overall effectiveness of Nashville's CDBG program.

Unfortunately, the targeting, accountability, and citizen participation requirements of the current regulations are still not strong enough. The loopholes in these regs and the fairly lax enforcement by HUD leave too little in the way of resources to meet the needs of our neighborhoods. There has not been a single year of Nashville's CDBG program in which at least 50 percent of the CDBG funds were used for housing rehab, despite the Metro Planning Commission's position that deteriorating housing is the most serious problem facing Metro Nashville today.

The answer to this kind of problem is better targeting of CDBG funds, along with a requirement that the cities document their assertions of benefit to low- and moderate-income neighborhoods. Currently,

all that is required is that the city indicate on its grantee performance report that low- and moderate-income groups will benefit—just an "X" in a block.

These days, there is a great deal of concern over efficient spending of the Federal dollar. The law specifically states that CDBG funds are intended principally for the benefit of persons of low and moderate income. However, what is the definition of "principally"? Neighborhood residents are painfully aware that it has been kept too vague for too long. They are aware that that vagueness has often led to insufficient use of CDBG funds and sometimes to outright abuse of the program. When CDBG funds have been used efficiently, it has been as a direct result of whatever targeting has been done.

The Federal Government doesn't need to tell municipalities how to spend each and every penny of CDBG funds, but it does need to set down strong regulations on targeting and citizen participation. It needs to enforce those regulations strictly; if not, the CDBG program has a bleak future. After all, what is the difference between food stamp fraud by individual citizens and misuse of CDBG funds by local governments? Both thwart the intent of congressional legislation governing the use of Federal funds.

Revitalization of urban neighborhoods is the kind of medicine our cities need. Its economic benefits for the cities and, eventually, for the Federal Government, extend far beyond its impact on a specific neighborhood. Efficient use of CDBG moneys through targeting aids in the creation of jobs and the reduction of crime. Without targeting, the Congress would simply be writing the local governments a blank check. In these times, with politicians constantly on the lookout for ways to increase revenues without raising taxes, we all know how the money would be spent.

I am sure that some will object to stronger regulations concerning the use of CDGB funds. They will say that more or stronger regulations will just mean more paperwork and higher administrative costs. That simply is not true in the long run. While there might be some initial costs, as there are whenever regulations change, the long-term savings produced through more efficient use of CDBG funds would be many times greater than the costs. If citizens were given stronger regulations with which to work in monitoring their local CDBG programs, and if HUD would just back them up rather than engaging in semantic contortions to justify whatever the cities want to do, then much of HUD's routine monitoring would become unnecessary. More than anyone else, the citizens of targeted neighborhoods are interested in seeing CDBG funds well spent.

In conclusion, we urge the members of this subcommittee to take a long hard look at the recent GAO study of the Community Development Block Grant program and to make recommendations concerning targeting that will insure the efficient spending of CDBG funds in cities throughout the country. The CDBG program must not be allowed to become a pork barrel for local politicians and other interests.

Thank you for your time.

Senator DURENBERGER. Thank you very much. Ms. Bennett, what happens to the results of this monitoring effort? I have seen your report. For example, has HUD seen your report? Who in HUD has seen it? Are they required to respond to it?

Ms. BENNETT. A number of things happened to that report. The first report was distributed to HUD as well as to the cities. The administration had it, and HUD invited us to come in to discuss the contents of the report, challenge some things, discuss methodology, look at some of our instruments—what they were designed to do—and to collect the information.

It is distributed to Members of Congress when we have hearings like this. It is distributed to a broader network of legal services and other networks, people with a local community base, and to neighborhood organizations that are also involved in looking at how the program happens to work. So it gets through those kinds of networks. You are talking about 2,000 community groups on our mailing lists, along with congressional and city administrations.

Senator DURENBERGER. Were you here when Mr. Dodge was testifying for HUD?

Ms. BENNETT. Yes.

Senator DURENBERGER. Did you hear his characterization of citizen participation?

Ms. BENNETT. Yes.

Senator DURENBERGER. How would you reply to his statement?

Ms. BENNETT. I thought Mr. Dodge was a bit uninformed of the way participation works now, as well as what it should be like. Currently, it is our experience—and I would welcome our local people to join in on this. Usually, citizen participation means a series of public hearings: one where needs are found out from the public and proposals are submitted for funding; one where the public gets a chance to look at the application just before it is submitted to HUD before the city council; and one where the public reviews the program's performance.

Usually in cities over 50,000 this also includes neighborhood meetings. There are smaller groups of citizens who get together and talk about their more provincial types of problems before they present the information at hearings. It is an information type of thing.

Many cities have citizen advisory councils, but they often act as only one of the points of impact for citizens to have something to say about the program. Often they are involved in helping municipalities prioritize needs for funding.

In general, the hearings tend to be just a place where citizens can go and say what they have to say. It does not include any exchange at all. In general, I am afraid, we believe formal citizen participation is necessary, but tends to be impotent in creating real citizen impact.

We think of the things which are most important, most critical, above all that is the degree to which the citizens have access to information. We talked briefly with several of our monitoring groups, just to get some feel as to how they are responding there. They were saying that the thing most critical to them is access to information. Even if you did away with hearings, as long as they had adequate information to use to go after certain kinds of abuses in spending, that would help. Right now you often get roadblocks—which are unbelievable—to get your hands on things that are available, like GPRs and applications; much less trying to go through program files, to find out whether they are monitoring for civil rights compliance.

Senator DURENBERGER. If Senator Danforth were present, he would say that the process you have described—in Toledo, Ohio, or in Springfield, Mo.—is the process of local government at work. There are city council meetings every Monday night which are posted in the meeting notices. People can come and talk to the city clerk. They can get all the information they want. There is a section on the agenda for citizens to stand up and participate in the process.

Every 2 years the mayor and city council submit themselves—and the record of the citizens of Springfield, Mo., or Toledo, Ohio—for reelection. So, who needs special citizen participation? Suppose Senator Danforth did ask you that question. What would your response be?

Ms. BENNETT. I would venture to say that those processes already set up probably fall short of getting what we consider to be meaningful citizen impact. They are processes. People are allowed to speak. It is a "thank you very much; we are glad you came" and then back into the smoke-filled room to do what we are going to do.

Senator DURENBERGER. Where does your muscle come in here?

Ms. BENNETT. We believe two things in the Project. Again I invite our local monitors to chime in. The real muscle comes in organizing, as Mr. Birdine said. You got to do it this way. In order to do a successful job of organizing around anything, you have to have information and be well-informed. You have to have a forum that you can use to express yourself. The organization has to be so tight that your local officials have no choice but to look at what you are saying, to listen to what lower income people are saying about having viable urban communities.

Senator DURENBERGER. Ms. Smith, did you want to say anything? You are one of the monitors.

Ms. SMITH. Yes; I would like to make a couple of comments.

One is that if the democratic process was working perfectly, then one assumes we would not need the National Association of County Officials or Chambers of Commerce. Those people are organized because they want to get certain things accomplished.

Citizens are organized for the same reason. The reason we are organized is to make the democratic process work. It does not work just because it is on paper. Unless citizens have the possibility of doing that, then it won't work. As much as we would like to believe that all the officials have the highest interest of the citizens in mind, I don't think that we can act on the assumption that every thing can just be left in their hands. What we are trying to do is to make the democratic process work, and to have the views of citizens, who are not otherwise organized, heard and acted upon.

What we do in Nashville is to get the entire process out in public. We believe that making decisions in public is a greater insurance that those will be better decisions.

Senator DURENBERGER. Earlier this morning we talked about defining the Federal purpose in the CDBG program. Are you now saying that Congress should consciously say that local citizen participation in local government does not work in this country? That Congress should create and use a citizen participation process? That the CDBG program is a Federal purpose? And that a citizen participation process should be added in the CDBG program?

Ms. SMITH. We would certainly welcome that. I think the statement made earlier—that the issue is 'who decides"—is a misstatement. The question is not just who decides. Who decides often determines what is decided. What is decided gets to the issue of legislative intent. If the intent is to serve low- and moderate-income people, then we think that the decisionmaking should include those people who are the subject of that intent.

Senator DURENBERGER. Ms. Powell?

Ms. POWELL. It seems to me that citizen participation is a cornerstone here. No. 1, I think we lost the ball. We have done a lot of studies. We have worked like crazy to find out what we must do to erase the urban blight.

We discovered that the hard-core inner city was the problem—slum, blight, crime, and the things like that. We took this information to the Federal Government and the Congress. We asked them to do something about it. The response was, "We will give you x amount of dollars. We will send it back to the cities to do something about this blight. With it we give you guidelines to eliminate blight, slums and all those things; but built into it must be citizen participation."

The reasoning was clear. This was not to be a free giveaway, nor a handout. The citizens were to eliminate their slum and blight condition themselves. This is the cornerstone of American Government—not to give it to the citizens, but have them do it.

We want a program where we can rehabilitate our communities. We want an economic program to say we can operate cooperatives. We want it to give us the seed money to organize and bring services. We do not want food stamps or free services. That is important.

Senator DURENBERGER. Thank you very much.

That is a good note to end on. I appreciate the time and effort that went into your presentations today. If you have further contributions on developing an approach to block grants in this country, we would appreciate them.

[The prepared statement of Ms. Bennett and Ms. Powell's attachment follow:]

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Philadelphia Urban League

TESTIMONY OF

THE NATIONAL CITIZENS' MONITORING PROJECT OF THE
WORKING GROUP FOR COMMUNITY DEVELOPMENT REFORM

TO THE SENATE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

JUNE 11, 1981

Board of National Citizens' Monitoring Project

Andrew Mott, Chair, *Center for Community Change* • Harriet Barlow, *Institute for Local Self-Reliance* • Mary Brooks, *Metropolitan Action Institute* • Ted Edlich, *National Community Action Executive Directors Association* • Sandy Ferniza, *National Council of La Raza* • Tom Gale, *National Urban League* • Donald Harewood, *NAACP* • Marlene Provizer, *League of Women Voters* • Glenda Sloane, *Leadership Conference on Civil Rights* • William Washburn, *National Congress for Community Economic Development*

Testifying before the Subcommittee on Intergovernmental Relations today are two community representatives who will be addressing Community Development Block Grant issues from a local perspective. They are also participants in the National Citizens' Monitoring Project on CDBG, a project of the Working Group for Community Development Reform.

The Working Group is a coalition of more than seventy-five national, regional, and local organizations which have worked together for the last four years on a series of issues related to reforming and strengthening the effectiveness of the Block Grant program. Among its members are the National Urban League, the National Council of LaRaza, the League of Women Voters, the National Low Income Housing Coalition, the Leadership Conference on Civil Rights, the Legal Services Task Force on CDBG, and the Center for Community Change.

Over the last thirty months, the Working Group has been conducting a far-reaching evaluation of the impact and operation of the Block Grant program. During its first years this National Citizens' Monitoring Project has evaluated how the program is actually operating and what the record of performance shows so far in over 70 entitlement jurisdictions throughout the nation. Among those jurisdictions have been nine of the ten cities with the largest entitlement grants, a cross-section of other entitlement cities, and several urban counties.

In these jurisdictions, the Working Group has entered into subcontracts with citizens' organizations -- Leagues of Women Voters, civil rights and community groups, and citizens' coalitions -- under which those groups administer a series of research instruments

developed by the Project. Each group reviews local CD applications and Grantee Performance Reports, conducts a thorough review of information in the jurisdictions' files to learn more about each activity, and performs a basic check on whether local governments have complied with federal requirements on a number of issues. The groups then conduct in-depth studies of housing, economic development and other programs financed with CDBG funds. The Monitoring Project's work has been supported under a grant from the Community Services Administration under Title IX of CSA's enabling legislation which mandates that that agency evaluate the impact of non-CSA programs upon the poor.

The Monitoring Project has two features which are of considerable importance in policy terms. First, it offers the federal government the opportunity to learn much more about the citizens' view of how the program is operating. This information supplements other studies and gives organizations representing residents of blighted areas and low- and moderate-income people in general an opportunity to conduct a rigorous assessment of this major program.

Second, the Monitoring Project represents the federal government's first major experiment with a relatively new and extremely promising form of citizen participation -- citizen monitoring and assessment. The organizations which make up the Working Group strongly believe that citizen monitoring -- with adequate funding, a careful research approach, and sufficient training and technical assistance -- can make a crucially important contribution to efforts to make government programs more effective and useful. If federal

programs are to be decentralized, if goals are to be set and responsibilities laid at the local level, it is essential that serious attention be given to strengthening the ability of local citizens to monitor and evaluate those programs and to work with local governments to improve them.

The National Citizens' Monitoring Project has released its first report, and shortly will be issuing additional reports. Unlike many other studies, our evaluations focus on actual performance and are geared to the development of recommendations concerning how the program could be improved to become a more effective instrument for community development. In our first year we concentrated especially heavily on aspects of the program which are of central concern to this subcommittee--the targeting of funds, including particularly the issue of who benefits from housing and economic development programs supported with CDBG, and a number of issues of overall program performance and effective use of public funds. Our second year research, which evaluated the overall performance of both local governments and HUD, is also relevant to the GAO Report under consideration by this subcommittee. We are submitting our first year report, a report from a special issue project by the Working Group on HUD monitoring, and summaries of both for inclusion in the record of these Subcommittee hearings. The second year report will be distributed to the Subcommittee as soon as it is available.

Before briefly summarizing our principal findings, we wish to commend the General Accounting Office for producing a forceful report that documents to-the-point many of the deficiencies in the CDBG

program. This subcommittee is also to be congratulated for its foresight in holding these hearings only two weeks after the release of a HUD Notice that exacerbates many of the problems highlighted in the GAO report. The notice particularly weakens requirements for targeting of funds to low- and moderate-income people and permits public services funding to exceed even its current regulatory limitations.

The two local citizens from the National Citizens' Monitoring Project are testifying today on the CDBG program in their respective cities. The situations they describe are not isolated instances but are part of a troubling pattern that emerges from monitors' research and experiences across the country. In each of the areas discussed in the GAO report--housing rehabilitation, targeting of funds, and HUD monitoring--the Project's research substantiates and, in some cases, exceeds the findings presented by the GAO.

Housing Rehabilitation

The proportion of Block Grant funds allocated to housing rehabilitation has gradually increased over the seven years since the program began. As the GAO report points out, over 25% of all CD funds currently are allocated to rehabilitation.

Groups of low- and moderate-income people have welcomed this gradual shift. In fact, they have been among the most vocal advocates of shifting a larger share of CD funds to housing in general and to rehabilitation in particular. By and large they have felt that spending on such programs has the potential to be beneficial to lower

income people and to the reduction of blight and slum conditions.

Because of the importance of housing rehabilitation as a major component of CD spending and a special concern of people living in blighted neighborhoods and earning limited incomes, the Working Group selected rehab programs as the first subject for in-depth case study analysis.

Monitoring organizations looked at twenty local housing rehabilitation programs funded in whole or in part with CDBG funds. The programs were varied and included loans and grants, multifamily and single family housing, and rental as well as owner-occupied dwellings. The programs were located in seventeen different jurisdictions, incldiuing urban counties, several of the largest entitlement jurisdictions, and a cross-section of other communities with populations above 50,000.

What lessons are to be learned from the first six years experience with CD-funded rehab projects? To what extent have dollars allocated to these rehabilitation projects been spent effectively? Have these projects provided substantial benefits to low- and moderate-income people or have they addressed serious blight and slum conditions?

The monitors' findings with regard to housing rehabilitation were disturbing:

- In seven of the projects, information about the program's goals and objectives and performance to date is inadequate and/or unavailable. In most of these cases it appears that the program records are so incomplete that the jurisdiction

cannot provide sufficient information about the operation of the housing rehabilitation program, who is benefitting, and how many units have been completed. In other instances, the jurisdiction failed to be cooperative in releasing information which may well exist.

- In eight of the programs, there were inadequate or poorly trained staff. In most instances, this criticism linked to other criticisms such as poor performance or long processing delays. In some instances, the monitors believed the poor staffing was indicative of the lack of commitment the city or county had to the program.

- In seven of the programs, there were long delays of as many as 4 years in getting the program underway. These problems resulted from failure to plan in advance of submitting the CD application, slowness in hiring, changes in program design, or general inability to get the program underway. In several instances, HUD applied pressure to get the program moving.

- In six of the programs, specific complaints were cited about high administrative costs. In one program an auditor-general's report indicated that for every $3 spent on rehabilitation, $2 were spent on administration (not including overall central administrative cots). In another instance, a program was criticized early in its development for having $2.64 of administrative costs for every $1.00 of rehabilitation costs. Changes were made in the program, but the monitor estimates a current ratio of $5.46 of administrative costs for every $1.00 of rehabilitation.

- In five of the programs, a major complaint was the poor quality of the rehabilitation that took place. The complaints ranged from poor materials, to poor work quality, to incomplete work. The jurisdictions at times assisted in the selection of contractors and in obtaining bids, but did not always assume responsibility for follow-through at the completion of the project. While inspections were often the responsibility of the jurisdiction, they frequently were not done. Only rarely did local governments give the homeowner a sign-off power concerning the work done. Grievance procedures were also rare, and no jurisdiction required a warranty on the work done. In most instances, a homeowner who is left with incomplete or faulty work is left with responsibility for negotiating with the contractor for remedial action.

- Monitors raised serious questions about actual benefit to low- and moderate-income persons in 12 of the 20 rehabilitation programs examined. Benefit to truly low-income persons was especially questionable.

- On the whole the programs were not geared to addressing severe blight and slum conditions. This finding is consistent with the House Subcommittee's 1977 staff report which found "relatively few instances in which available community development funds were targeted for the worst areas of their communities".

- A majority of the programs were designed to rehabilitate owner-occupied homes, even though most of the communities' low- and moderate-income residents are renters. Furhtermore, the multi-family housing rehab programs tended to be designed with small buildings in mind and to be of little relevance to larger buildings. This appeared to result from the unfamiliarity of the local governments' staff with how to design programs which are appropriate for the rehabilitation of larger apartment buildings.

- Six of the 20 programs showed a poor record of minority participation and affirmative action, even though the CDBG program is specifically covered by federal equal opportunity requirements.

- Displacement is likely to occur as a result of one-third of the programs evaluated. Yet none of the communities has an adequate strategy to mitigate displacment.

Targeting and Benefit to Low- and Moderate-Income Persons

The question of benefit has been one of the most controversial and important issues of the CDBG program. The key language in the statute is in the findings and purposes section where Congress stated that the primary objective of the CDBG program was "the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low- and moderate-income."

While Project monitors have considered problems relating to Neighborhood Strategy Area targeting and excessive public services funding, these specific questions usually stem from a broader concern with targeting benefits to those people most in need of programs. Monitors are not opposed to public services funding with Block Grant dollars, for example, as long as services are restricted to low- and moderate income persons and offered in conjunction with--rather than in place of--physical development activities in low-income areas.

Until the release of the most recent HUD Notice, HUD enforced the benefit standard by reviewing applications to see whether 75 percent of all program funds were alleged to be benefiting low-and moderate-income families over a three-year period, or whether a minimum of 51 percent of the funds were so allocated annually.

The low- and moderate-income benefit test is the most important of the board national standards which local programs must meet. However, HUD has relied on a cursory review of the application, partly because of the difficulties of checking compliance at an arms-length distance from CDBG activities. Citizen monitors, on the other hand, are in an excellent positon to look at the realities of the program as proposed and carried out in order to check compliance. The case studies from our first year research have proven to be a rich data source on the benefit question.

- Forty-four percent of the jurisdicitions monitored did not present sufficient budget information in their three-year application to determine if that application principally benefited low- and moderate-income persons.

- Nearly one-fifth of the jurisdictions monitored made claims about three-year benefit to low- and moderate-income persons based on information that was not

available to the public or which could not be substantiated in the application as filed.

- Ninety percent of those jurisdictions which had adequate budget information in their three-year application to be analyzed claimed a higher percentage benefit to low- and moderate-income persons that the monitors reported. Of those with adequate budget information, our monitors reported 50 percent were below the 75 percent benchmark for program benefit to low- and moderate-income persons.

- For the first year of the three-year period (actually the fifth year of the CDBG program), 92 percent of the monitors disagreed with the assertions of their local governments about the proportion of the one-year program funds which will benefit low- and moderate-income persons. Of the thirty-six jurisdictions, fourteen were reported by monitors to budget less than 75 percent of their one-year program funds for such benefit.

- Of those jurisdictions that did not present sufficient budget information, some did not present three-year budget information in the application. This information is essential to determine compliance with the 75 percent benefit test, along with other requirements. Other local governments aggregated the program budget amounts into categories so large and amorphous that program benefit could not be assessed. For example, jurisdictions frequently grouped numerous program activities for certain geographic areas, reporting a lump-sum budget item for that area. Many defined program activities so broadly that benefit to low- and moderate-income persons could not be determined.

After analyzing each activity, monitors frequently challenged the characterization of a number of activities as beneficial to low- and moderate-income people. Twenty-seven (75 percent) of the monitors disagreed with the assertions of their local governments. Monitors pointed out over 250 identifiable activities or projects ranging from tree planting to entire NSA projects to massive downtown projects on which they challenged the validity of local government claims.

Three types of program activities were frequently challenged. Fifty-six percent of the monitors questioned the benefit of particular public facilities for lower-income people. Likewise, 37 percent challenged certain housing rehabilitation activities, and 27 percent queried certain public service activities on the basis of benefit.

When explaining why they contested the assertion that an activity would principally benefit low- and moderate-income people, monitors cited five reasons:

- The proposed activities were to be in areas that were not primarily occupied by lower-income people. Monitors from 52 percent of the jurisdictions cited this reason when questioning benefit to lower-income people.
- The proposed activities were not targeted to ensure benefit to low- and moderate-income persons. Monitors cited activities which were located in areas primarily occupied by lower-income people, but benefited all citizens in the jurisdiction. They pointed to street repairs and other activities which were not targeted but were claimed as lower-income benefit. And they cited activities targeted to lower-income areas which lack income limits and therefore were not likely to benefit lower-income people.
- The activities were targeted to lower-income neighborhoods but could actually have an adverse impact on lower-income households (e.g., displacement).
- The activities might have had a marginal benefit to low- and moderate-income persons, but were not truly responsive to their needs.
- The activities were simply administrative and did not produce program benefit.

These findings show that programs seldom are of real benefit to low- and moderate-income people unless they are carefully designed to respond to the needs of such people and unless there are very specific and effective measures to target benefit. They also rein-

force the GAO report's conclusion that claims of benefit often are not sufficiently verified by grantees. Because it is so difficult to determine who is benefiting from the Block Grant program, we would question HUD's and the Brookings Institution's assertion of broad improvement in program benefit targeting. On the contrary, our monitors' research raises serious concerns that neglect of low-income people and severely blighted neighborhoods is pervasive in the CDBG program.

Monitoring CDBG Grantees

The performance problems of local government are so widespread and severe that they raise basic questions concerning the adequacy of HUD's current procedures for performance monitoring and post audits. The grantee performance reports submitted to HUD provide insufficient information for the Department, local councils, or citizens to assess how well a jurisdiction has performed under the program. Site visits by HUD staff are too brief, infrequent, and isolated from sources of independent criticism to be fully effective in identifying performance problems. Furthermore, their effectiveness is limited by the basic conflict in roles which each Area Office faces with regard to CDBG--it is to work with local governments and help them puruse their objectives, while it also is to be an independent monitor, evaluator, and critic of those same local governments. Finally, the vagueness of HUD standards on many crucial performance questions forces Area Office personnel to interpret those standards, leading to charges of arbitrariness, undue inteference, and inconsistency among Area Offices.

Nonetheless, HUD's oversight role in the CDBG program will be even more critical in the years ahead. If the Senate version of Title I of the Housing and Community Development Act prevails, front-end reviews of CDBG applications will be severely limited, and jurisdictions will not be required to develop goals and plans that establish a basis for later evaluation by the federal government, local citizens, and local governments themselves. As a result, an even greater burden will be placed on HUD to carefully oversee grantee performance. HUD's role was also emphasized by Senator Lugar during the floor debate on Title I: "Under our bill, HUD is required, no less than annually, to review recipient performance for compliance with the requirements and objectives of the Act. We expect HUD's performance reviews to be both responsible and thorough."

Unfortunately, as the GAO has pointed out in both this current and past reports, HUD's record of performance monitoring has been inadequate throughout the history of the program. In the early years, the lack of regulations and handbooks that clearly defined certain statutory terms and requirements led to considerable confusion among local governments and to inconsistent, often inequitable application of different standards by different HUD Area Offices. More recently, regulatory reform and HUD's introduction of handbooks and other revisions of its monitoring procedures promised improved oversight.

The findings of two separate, but related Working Group studies conducted last year, however, indicate that the capacity and/or will of local government and HUD to address performance issues remain in question. The Project's locally- based participants, in their second year of research, investigated HUD monitoring and grantee

self-monitoring as part of larger case studies on administrative performance in forty-three jurisdictions. Their evidence reveals HUD's scant effect on actual program performance.

- HUD made 154 recommendations to grantees monitored by the Project during the last program year, based on 195 specifically cited concerns. Only 42% of these recommendations prompted any action by the localities. HUD placed forty-one grant conditions, which resulted in program changes in 24 cases (59%) but, according to our monitors, only seven (17%) actually helped improve program performance.

- HUD consistently failed to monitor jurisdictions for compliance with "maintenance of effort" provisions. Both the statute and the regulations prohibit the use of Block Grant monies to substantially reduce local support for community development activities. Yet, of twenty-seven HUD Area Offices that responded, only three claimed they monitored for even minimal maintenance of effort compliance. Almost all HUD representatives stated they "took the City's word," and none reported checking for compliance during an annual monitoring visit.

- Inadequate documentation and poor grantee record-keeping is a major obstacle to effective HUD monitoring, citizen monitoring, and public accountability. HUD requires jurisdicitions to maintain certain information, yet our monitors found:

  - documentation for program benefit claims often was 1) based on ten-year old census data that did not refelct recent demographic and income changes occurring in most inner cities; 2) sketchy and incomplete; or 3) non-existent.
  - housing performance data were often full of "ghost" units which never materialized, but nevertheless were used to enhance grantees' performance records.
  - the number of jobs projected or produced was seldom available in public documents, difficult to obtain from local administrators, or didn't exist.
  - the race and income of program beneficiaries were often unknown on a program-by-program basis, or were on record based solely on ten-year old census records of population for target areas.
  - civil rights assurances were largely ignored with little or no guarantee that they were carried out.
  - program expenditure and progress data were generally out-of-date and/or hastily assembled for performance reports due to HUD.

In another study just released, the Monitoring Project compared fifteen grantee sites and their Area Offices to assess the impact of HUD's revised monitoring system. This report looks more closely at HUD's in-house procedures, and finds that 1) Area Office compliance with the new directives often is lacking and 2) further Central Office guidance is needed.

- Vague or ineffective standards were responsible for deficiencies in monitoring program progress, low- and moderate-income benefit, and Housing Assistance Plan performance. Area Offices require more precise criteria for determining acceptable performance among functionally equivalent projects.
- HUD failed to select for monitoring many programs with substantial delay problems and ignored some HAP performance problems.
- Despite the Handbook's requirement for citizen interviews, only a few HUD representatives contacted citizen groups for their appraisals of program performance. Early citizen input may have alerted CPD representatives to performance problems and helped test the validity of information fed to them by grantee staffs in interviews and in Grantee Performance Reports.
- Low- and moderate-income benefit in economic development projects was neglected by all HUD monitors in their reports,
- Although the Handbook requires a review of grantee steps to minimize displacement, HUD's Central Office has not instructed field staff to monitor displacement in affected areas. The emphasis on documentary reviews has produced a proliferation or paper strategies, with few attempts to assess their effectiveness.

As this subcommittee considers the role of HUD in the CDBG review process and the relative value of record-keeping and document review, we strongly urge you to heed our findings. They represent a warning flag that if these processes are played down, the result will be even more confusion, lack of accountability, and questionable cost-benefit track records than is the case under the programs that were the subject of our studies.

Conclusion

Overall, local groups are finding little housing being rehabbed or built, few program benefits for low- and moderate-income people, and inadequate monitoring by HUD.

The pattern which emerges from the monitors' research is a troubling one. It is a pattern which shows that local mayors--as well as city councils, citizens, and HUD--often do not have the basic information they need to monitor what is happening with the $4 billion which Congress appropriates each year and ensure that it is spent in ways which meet local goals and national objectives. It is a pattern which raises the troubling prospect that many local governments have not yet--seven years after enactment of the program--demonstrated that they are developing the capacity and the political will to implement the Block Grant program effectively.

The National Citizens' Monitoring Project generally supports the GAO recommendations for better targeting of funds, overall income eligibility requirements, limited eligible rehabilitation work, and greater federal guidance. We also support measures that would effectively implement Senator Lugar's call for responsible and thorough HUD reviews. The basic issue is accountability: will the federal government fulfill its obligation to see that tax-payers' money is spent appropriately for the needs of low- and moderate-income people. To ensure local government accountability, the Department and the public must have full access to complete information about CDBG programs. Secondly, HUD should maintain an equitable and responsive appeals process that allows citizens to voice their concerns and

effect better program performance.

The Monitoring Project would be delighted to work with the Subcommittee in examining these issues. We also urge you to carefully weigh a number of related questions:

-- What terms and requirements must be clarified so that there can be consistent, equitable application of all statutory requirements?

-- What needs assessment planning, reporting, and evaluation requirements are essential to ensure that local governments develop sufficient capacity to carry out the CDBG program and meet local needs and national objectivies?

-- What requirements are necessary to ensure that the programs do not suffer from fraud, waste and abuse?

-- What requirements are necessary to ensure that the principal beneficiaries of the program are, in fact, low and moderate income people, the truly needy?

-- What requirements are necessary to ensure that local governments are proceeding with programs which are in compliance with the objective of the Act and the statutory requirements with regard to civil rights and fair housing, citizen participationm displacement and relocation, and other national standards?

As we all know, there is a great hunger in this country for more effective, more accountable government, for government which works hard and efficiently to solve the problems which so greatly concern our citizens. The Working Group for Community Development Reform and the National Citizens Monitoring Project are deeply committed to this struggle. We have worked diligently at the local and national levels to bring about regulatory reforms and to press for reforms in local governments and the federal government so that the goals of more effective, more accountable government and an improved life for all Americans -- especially the lower income people who are the principal beneficiaries of Title I -- are achieved.

DOCUMENTED OBSERVATIONS PERTINENT TO JURISDICTION'S ABUSE OF COMMUNITY DEVELOPMENT BLOCK GRANTS

Location of a project in a Low-Income Area Is Insufficient to Establish Actual Lower-Income Benefit

The Sewer Separation Project is described in the 1980 application as part of a City-wide project for major sewer improvements. The separation of sanitary and storm sewers is targeted to the portion of Laney-Walker NSA, generally bounded by Laney-Walker Blvd., University Place, D'Antignac Street and Seventh Street. Although the project is located in a NSA, all of the improvements will be located in the corner of the NSA on which is constructed the Medical College of Georgia and University Hospital complex.

The City Engineer filed the following comment to this project:

The City Engineer states that University Hospital and MCG will be primary benefactors of this project. Benefit to the medical complex does not result in benefit to low- and moderate- income areas. Also, the medical complex is not a neighborhood strategy area; however, since the project would occur in NSA, it is eligible as long as the work is done in conjunction with street paving, where flooding and health hazards are persistent problems, where a unique emergency situation exists.

Augusta City Council Meeting, March 3, 1980.

HUD has reconized that mere location of an activity in a lower-income area is insufficient to establish lower-income benefits:

> For example, where a facility is located in a lower income area, but due to admission charges, transportations patterns, or other factors, it will be used primarily by higher income persons, that project may not be counted as principally benefiting low- and moderate - income persons.

HUD Notice CPD 78-9 (April, 1978)

Likewise, a sewer sepration project which the City's Engineer admits will primarily benefit the Medical College of Georgia does not establish benefit to the adjoining low-income neighborhood. Therefore, the 24% of benefit claimed by the City form this project must be deducted from the total program benefit percentile.

THE CITY'S ONLY POSSIBLE JUSTIFICATION TO THIS PROJECT COULD BE THE CITY ENGINEER'S STATEMENT THAT A "UNIQUE EMERGENCY SITUATION EXISTS". THE CITY OF AUGUSTA HAS NOT PROVIDED ANY JUSTIFICATION FOR WHY THIS PROJECT MEETS A NEED OF PARTICULAR URGENCY.

WHEN A PROJECT IS CLAIMED TO MEET AN URGENT NEED, THE APPLICANT MUST SHOW AND HUD MUST DETERMINE THAT A SERIOUS AND IMMEDIATE THREAT OF RECENT ORIGIN EXIXTS FOR WHICH THE APPLICANT CANNOT SECURE ANY OTHER FUNDING. 24 C.F.R. / 570.302(F)

TO CONCLUDE, THE CITY OF AUGUSTA CANNOT CLAIM BENEFIT TO LOW- AND MODERATE-INCOME PERSONS AS A RESULT OF THIS PROJECT. FURTHER JUSTIFICATION SHOULD BE PROVIDED BY THE CITY TO ESTABLISH THAT THERE IS A NEED OF PARTICULAR URGENCY AND SPECIFICALLY WHAT TYPE OF SEWER PROJECT IS PROPOSED. THE CITY HAS NOT MEET IT'S BURDEN OF SHOWING THE EXISTENCE OF A NEED OF PARTICULAR URGENCY AROUND THE MEDICAL COLLEGE OF GEORGIA AND COMPLAINANTS REQUESTS THAT HUD INVESTIGATE THIS CLAIM.

THE HOUSING ASSISTANCE PLAN FAILS TO ADEQUATELY ADDRESS THE NEEDS OF LOWER - INCOME RENTERS

(A) 24 C.F.R. / 570.306(c)(1) (ii), STATES IN RELEVANT PART:

> THE TYPES AND QUANITIES OF HOUSING ASSISTANCE PROPOSED BY TENURE TYPE (OWNER AND RENTER), SHALL BE APPROPIATE TO MEETING IDENTIFIED NEEDS OF BOTH RENTERS AND OWNERS. (EMPHASIS ADDED),

(B) THE HOUSING NEEDS OF RENTERS HOUSEHOLDS FAR EXCEED THE HOUSING NEEDS OF HOME-OWNERS, BUT IT IS SOLELY HOMEOWNERS AND NOT LOWER-INCOME RENTERS WHO WILL BENEFIT FROM THE PROPOSED NEIGHBORHOOD REVITALIZATION AND HOUSING ASSISTANCE ACTIVITIES.

ACCORDING TO THE HOUSING ASSISTANCE PLAN (COVERING AUGUST 1, 1979 THROUGH JULY 31, 1982):

TABLE I- Survey of Housing Conditions Revision June 20, 1979

19,821 Housing units available (Occupied and Vacant)

405 Housing units are substandard

56 (13.83%) of these are owner households

349 (86.17%) of these substandard units are renters households

TABLE II- Housing Assistance Needs of Lower Income Households

5,169 Lower income households need housing assistance

1,400 (27.86%) of these are owner-occupied households

3,729 (72.14%) of these are renter households

(c) The City of Augusta has proposed two housing assistance programs to be funded by CDBG during 1980:

(1) Concentrated Code Enforcement for owner-occupied dwellings. (City of Augusta, 1980 Application, p. 14.) The following sums are expected to be expended under this category:

1978	$60,000
1980	$75,000
1981	$75,000

(2) Rehabilitation Financing Program- available to homeowners (City of Augusta 1980 Application, p. 15), funded as follows:

1979	$250,000
1980	$450,000
1981	$400,000

No CDBG funds are targeted to renter households, although renters are identified as 72% of those households needing housing assistance and 86% of those households residing in substandard units.

(d) While the City proposes to meet over half of it's housing assistance goals for lower income renters with Section 8 Existing Rent subsides, this program cannot be expected to remedy in any meaningful manner the aforementioned deficiencies with respect to renter households. Only if the Section 8 Existing

HOUSING PROGRAM IS USED IN CONJUNCTION WITH CDBG PROGRAMS FOR THE REHABILITATION OF SUBSTANDARD RENTAL UNITS CAN IT BE CONSIDERED A REALISTIC PROGRAM FOR ADDRESSING AUGUSTA'S RENTAL HOUSING NEEDS.

(E) BOTH THE LACK OF SUBSTANTIAL HOUSING ASSISTANCE FOR RENTERS AND THE GROSSLY DISPROPORTIONATE AMOUNT OF CDBG EXPENDITURES FOR REHABILITATION LOANS AND CODE ENFORCEMENT THAT BENEFIT EXCLUSIVELY HOMEOWNERS DEMONSTRATE THAT RENTER NEEDS ARE UNMET. CONSEQUENTLY, THE PROPOSED HOUSING ASSISTANCE PLAN ACTIVITIES ARE PLAINLY INAPPROPRIATE. 24 C.F.R. /570.311 (B) (2) (V) AND 570.306(A)(3).

(F) MOREOVER, THE CITY OF AUGUSTA HAS VIOLATED THE PROPORTIONALITY REQUIREMENT CONTAINED IN 24 C.F.R. / 570.306(C) (1) WHICH REQUIRES THAT THE THREE-YEAR HOUSING ASSISTANCE GOALS ADDRESS THE NEEDS OF THE THREE HOUSEHOLD TYPES, WITHIN EACH TENURE TYPE, GENERALLY IN THE SAME PROPORTION AS IDENTIFIED NEEDS.

(G) THE CITY OF AUGUSTA HAS FAILED TO COMPLY WITH THE "CATCH-UP" PROVISIONS THAT REQUIRE APPLICANTS TO ADDRESS UNMET NEEDS BEFORE PROCEEDING WITH SUBSTANTIALLY ADDRESSED NEEDS.

THE CITY OF AUGUSTA HAS FAILED TO COMPLY WITH PERFORMANCE STANDARDS IN PAST AND ON - GOING PROJECTS

PURSUANT TO 24 C.F.R. / 570.900 ET. SEQ., RECIPIENT GOVERNMENTS OF CDBG ARE REQUIRED TO DEMONSTRATE ACTUAL AND ADEQUATE PERFORMANCE OF THOSE ACTIVITIES FUNDED BY CDGB. ADDITIONALLY, ON HUD FORM 4950.1, GRANTEE PERFORMANCE REPORT, THE AUTHORIZED REPRESENTATIVE OF THE RECIPIENT, HERE THE MAYOR, CERTIFIED THAT THE INFORMATION ON PERFORMANCE IS TRUE AND CORRECT AS OF THE DATE SPECIFIED. HOWEVER, THERE ARE SEVERAL STRIKING EXAMPLES OF THE CITY'S FAILURE TO PERFORM ADEQUATELY ON PROJECTS IN THE BEHTLEHEM NEIGHBORHOOD, A NSA.

AS DISCUSSED IN COMPLAINANT'S APRIL 1980 ADMINISTRATIVE COMPLAINT, ONE SUCH PROJECT IS THE MAPLE STREET MINI-PARK WHICH FIRST APPEARED IN THE CITY'S 1976 APPLICATION. RESIDENTS OF THE NEIGHBORHOOD HAVE REPEATEDLY OBJECTED IN CD PUBLIC HEARINGS AND TO THE CITY COUNCIL ABOUT THE ALLEGED EXPENDITURE OF $35,000 ON

THIS PARK. (DURING THE MARCH 3, 1979, PERFORMANCE HEARING THE AUGUST CD CONTRACT COMPLIANCE COORDINATOR STATED THAT THE $10,000 PARK WAS 95% COMPLETED).

THE "PARK" COVERS AN AREA OF APPROXIMATELY 1.3 ACRES. IT IS BOUNDED ON THREE SIDES BY PRIVATE RESIDENTS AND ON THE FOURTH SIDE BY A STREET WHICH ABUTS RAILROAD TRACKS. THE ONLY IMPROVEMENT MADE ON THE LOT IS THE INSTALLATION OF THE STREET LIGHT, WITH TWO LAMPS, ON THE FAR NORTHERN BOUNDARY OF THE LOT. AS IS APPARENT FROM THE PICTURES, THE LOT IS WHOLLY UNDEVELOPED. ON THE DAY THE PICTURES WERE TAKEN, MARCH 27, 1980, MOST OF THE LOT WAS INUNDATED WITH WATER. IT WAS POSSIBLE TO TRAVERSE ONLY THE OUTER MOST BOUNDARIES OF THE PARK.

IN A CD PUBLIC HEARING ON JANUARY 25, 1979, MR. ROBERT RATLIFF, CONTRACT COMPLIANCE COORDINATOR GAVE THE FOLLOWING REPORT ON THE MAPLE STREET MINI-PARK:

> (W)E INTEND TO PUT SOME LIGHTS IN THE PARK AREA, SOME PICNIC TABLES, BENCHES OUT THERE; MAYBE A FEW OTHER THINGS. WE HAVE CLEARED THAT LAND. NOW ALL WE HAVE TO DO IS GRADE IT DOWN, PUT SOME GRASS SEEDS IN THERE, AND CONSTRUCT A FENCE AROUND THE PARK, AND WE HOPE WE'LL BE IN BUSINESS....

OVER A YEAR LATER ON FEBRUARY 20,1980, MR. RATLIFF MADE ANOTHER REPORT ON THE STATUS OF THE MAPLE STREET MINI-PARK AT THE CDGB PUBLIC HEARING. ACCORDING TO MR. RATLIFF, THE MINI-PARK NEEDED TO BE GRADED DOWN, GRASS SEEDS NEEDED TO BE SOWN, AND CONCRETE TABLES AND A FENCE NEEDED TO BE INSTALLED. THIS PERFORMANCE REPORT IS SUBSTANTIALLY THE SAME AS THE REPORT RENDERED A YEAR EARLIER. THE PARK HAS NEVER BEEN ACCEPTED BY THE NEIGHBORING RESIDENTS WHO HAVE REQUESTED A PLAYGROUND SINCE 1976.

AREA RESIDENTS WERE TOLD THE "PARK" WAS "ABANDONED" DURING THE SUMMER OF 1980. THE CITY OFFERED TO SALE THE "PARK" TO A NEIGHBORHOOD CHURCH DURING THE SAME TIME PERIOD. AT THE NOVEMBER 3, 1980, PUBLIC HEARING, CITIZENS WERE TOLD THAT THE "PARK" HAD BEEN "ABANDONED" AS A PROJECT. HOWEVER, SHORTLY AFTER THE HEARING MORE ACTIVITY TOOK PLACE AT THE "PARK": GRADING AND PLANTING OF GRASS. IT IS NOW UNCLEAR WHAT THE STATUS OF THE "PARK" IS, ALTHOUGH THE HUD AREA OFFICE HAS BEEN INFORMED BY THE CITY THAT IT IS COMPLETE. HOWEVER, PHOTOGRAPHS TAKEN JANUARY SHOW

THAT THE "PARK" STILL IS AN EMPTY LOT.

THE CITY IS ALSO DEFICIENT IN IT'S MONITORING OF STREET AND SIDEWALK PAVING IN THE BETHLEHEM NEIGHBORHOOD. ALTHOUGH THE NSA IS FLAT, STREETS, SUCH AS MAPLE STREET, WERE PAVED WITHOUT GRADING OR INSTALLING ANY CURBS OR DRAINS, WHICH RESULTS IN MUCH STANDING WATER WHENEVER IT RAINS. SEE EXHIBIT "P", A PICTURE OF PAVING ON MAPLE STREET. WHEN CALLED TO THE ATTENTION OF THE CD COMMITTEE AND THE CD DEPARTMENT, MR. RATLIFF DID INSPECT THE WORK. HOWEVER, HIS RESPONCE WAS TO ASK CITY COUNCIL, NOT THE CD DEPARTMENT, TO REPAVE THE STREETS.

MANY SIDEWALKS WERE LAID IMPROPERLY WHICH HAS RESULTED IN CRACKS IN THE NEW SIDEWALKS. ALSO, WORKERS HAVE DEFACED PROPERTY OF NSA RESIDENTS. THE CD DEPARTMENT AND THE CITY HAVE MADE NO ATTEMPTS TO REPAIR THE SHODDY WORK.

Willie [illegible]
Addie [illegible]

Sworn to and subscribed before me
this 4th day of June, 1981, Augusta,
Richmond County, Georgia.
[illegible]
Notary Public - State of Georgia

My Commission expires September 18, 1982

Senator DURENBERGER. The hearing is now adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was recessed, to reconvene subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

UNITED STATES CONFERENCE OF MAYORS
1620 EYE STREET, NORTHWEST
WASHINGTON, D.C. 20006
TELEPHONE: (202) 293-7330

STATEMENT OF THE HONORABLE

STEVEN CARLSON, MAYOR,

CITY OF JAMESTOWN, NEW YORK,

ON BEHALF OF THE

UNITED STATES CONFERENCE OF MAYORS

AND

NATIONAL LEAGUE OF CITIES

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

COMMITTEE ON GOVERNMENTAL OPERATIONS

U. S. SENATE

CONCERNING THE

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

JUNE 3, 1981

11-424 O - 83 - 7

Mr. Chairman, distinguished members of the Subcommittee, my name is Steven Carlson. I am the Mayor of Jamestown, New York, and I am here today representing the U.S. Conference of Mayors and the National League of Cities. I appreciate this opportunity to comment on the General Accounting Office's recent report on the Community Development Block Grant program.

The Community Development Block Grant (CDBG) program has been, in my estimation, a successful program embodying the best aspects of a partnership approach to community development. Local government, the federal government, and citizens in the community all have the opportunity to participate in this partnership through the CDBG program. We believe it is a fundamentally sound program, and do not believe that significant changes to the statute are warranted. Since its inception, it has provided billions in assistance to large communities and small cities, for housing rehabilitation and major redevelopment work. My own community has participated in the Comprehensive Small Cities grant program. We are very pleased with that program.

The General Accounting Office's recent report, The Community Development Block Grant Program Can Be More Effective in Revitalizing the Nation's Cities (CED 81-76), underscores once again the need for the CDBG program. Citing numerous studies, the report notes that the plight of central cities has not improved measurably over the decade of the Seventies. Substantial deterioration in public facilities and housing stock, wide

disparities in income between city dwellers and others, and other familiar indices all point to a continuing need for assistance to America's cities.

The report also raises questions about the way in which CDBG funds are used to address those needs. I am not able to refute the GAO's field work. However, I would like to point out a few areas where I believe that questions can be raised about the GAO's conclusions.

For instance, the GAO finds that targetting of CDBG resources is insufficient in the areas it studied. Geographically, the GAO feels the aid is too diffused, and the NSA's often too numerous or too poorly defined. However, the criteria used to come to this conclusion are not presented to the reader. Citations are included from unnamed local and HUD officials to support the conclusion, but there is no objective determination offered which would suggest just how the GAO believes the federal government should enforce better targetting. The key feature of the CDBG program is that local governments have broad flexibility to define their own needs, and to develop appropriate responses to those needs. It should not be left to HUD officials to determine how large an area should be treated. That is appropriately a local decision. As the GAO's own preface points out, the level of assistance provided under CDBG or any other federal urban aid program is insufficient to cure all a city's ills, or fix all its physical problems. Therefore, the federal government should leave to localities the determination of how to

balance competing needs and interests at the local level.

The report also criticizes the use of CDBG funds for public services. As a general matter, I believe there is a role for public service activities within the context of a comprehensive CDBG program. At the same time, I believe that such services should be for the primary benefit of low- and moderate income people, and should be related in some way to the physical development thrust of the CDBG program. Some of the examples cited by GAO seem inappropriate. But I don't know the particulars of the examples, and hesitate to criticize without all the facts. I hope the Subcommittee will support the continued availability of CDBG funds for limited public service programs.

I would add that recent proposals to cut back social service programs at the federal level are likely to lead to even stronger pressures on city government to provide these services through CDBG.

The GAO also criticizes rehabilitation programs operated by cities with CDBG funds. In particular, it claims that rehab funds are used to finance repairs for owners who are well able to pay for them without help. Again, the specifics of the GAO examples are hard to refute, because I don't know the cities or all the facts. However, we,too, believe that funds for CDBG should be targetted, as the statute directs, for the benefit of low- and moderate income people. At the same time, we should recognize that there are occasions when

assistance to others can be a critical element in making a redevelopment or preservation strategy succeed. Congress recognized this by permitting the use of CDBG funds to revitalize deteriorated areas to attract persons of higher income. Once again, no blanket judgment should be made condemning the use of CDBG funds for those not of low- or moderate income. The test should be whether the activities undertaken by the local government meet one of the three purposes of the statute, and whether the specific activities are part of a comprehensive approach to a community development problem.

I would like to stress that both the Conference of Mayors and the National League of Cities support the establishment of national goals in the CDBG and other programs. We believe the Congress has a legitimate role in setting the overall context in which federal tax revenues are spent. We believe that the current CDBG statute established a workable, successful framework for local governments to proceed with maximum flexibility to meet those national goals. The GAO report has highlighted some areas where there may be need for greater diligence by local and federal governments. However, we hope the Subcommittee will consider the criticisms lodged by GAO in light of the overriding need to continue the partnership approach embodied in the Housing and Community Development Act of 1974 without significant change, and certainly without any significant addition of federal interference in the local goal-setting and program process.

I would also like to stress that the GAO concerns about targetting of aid to needy people and needy areas is very legitimate. It is ironic that while such a report is being considered in this Subcommittee, the Senate is being asked to consider a change in the CDBG program which might, in my opinion, lead to very significant changes in the overall distribution of funds. I refer to the Senate bill S.1197, the Housing and Community Development Amendments of 1981, which would give states the option of administering the Small Cities CDBG program with a minimum of federal oversight or direction. Since 1974, small cities have had a direct funding relationship with HUD through the Small Cities Grant program. This program works. My community has participated in it since its inception. We have no complaints about its basic structure. We certainly have no complaints about it that could be rectified by turning administration of the program over to the state.

If this Subcommittee is concerned about targetting in the CDBG program, then I urge you to look closely at the possible implications of the state CDBG program option. What S. 1197 would permit is the development of 50 new systems for allocating funds to small communities. It would permit the development of entirely new ranking systems for grant award. Federal oversight of the program would be minimal. I ask the Subcommittee to consider how sensitive to the needs of urban centers states historically have been, and how sensitive you believe their administration of such a program would be in the state CDBG program.

Clearly, there will be great variations in this area. Both the League of Cities and the Conference of Mayors strongly oppose the provisions of S.1197 regarding state administration of the Small Cities program. I would like to submit for the record a policy statement to this effect adopted by the Board of Directors of the National League of Cities at their recent meeting.

Thank you for the opportunity to comment on the GAO report. I will be happy to answer any questions you may have at this time.

National
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Mayor, St. Louis, Missouri

Second Vice President
Mayor, Scotland Neck, North Carolina

Immediate Past President
Councilwoman, Newport News, Virginia

Executive Director

A Policy Statement on

The State Role in Federal Community
and Economic Development Programs

NLC reaffirms its support for continued Federal assistance to promote local community and economic development. We believe States should support local efforts in these areas and NLC supports greater State participation if that participation is accompanied by substantive State resources. We oppose, however, permitting States to exercise substantive programmatic decisions over the local use of existing Federal community and economic development funds. Current Federal efforts in these areas are based on effective working relationships developed over many years and should not be disrupted.

Adopted by the Board of Directors of the National League of Cities, May 23, 1981.

SOUTHERN GROWTH POLICIES BOARD

Box 12293 Research Triangle Park North Carolina 27709 (919) 549-8167

Office of the Chairman

STATEMENT OF

GOVERNOR RICHARD W. RILEY

STATE OF SOUTH CAROLINA

BEFORE

THE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

THE UNITED STATES SENATE

June 11, 1981

First, I would like to express my appreciation for the opportunity to testify before the Subcommittee on Intergovernmental Affairs and to address an issue which has been of great concern to many Southern and Western states, I am speaking of the process by which the Community Development Block Grants (CDBG) funds are allocated.

The recent study conducted by the General Accounting Office has touched upon many of the problems of the CDBG program bringing to light a great deal of waste, abuse and mistargeting. This study, in my view, does not go far enough in examining the inadequacies of this program in targeting community development funds to the areas with the greatest need. This inadequacy is demonstrated by the results of the GAO study but originates in the CDBG dual allocation formulas.

As you know, the Housing and Community Development Act of 1977 redesigned the allocation process for the CDBG program incorporating a dual allocation formula. The dual system was comprised of the original allocation formula (formula A) based on 25% overcrowded housing, 25% total population and 50% people in poverty. The formula which was added (formula B) was based on 30% poverty rate, 20% population growth lag and 50% housing built before 1940. A recipient is entitled to the larger amount calculated by the two formulas.

The original formula directed CDBG funds to areas with large poverty populations. The addition of formula B caused an immediate reversal in funding trends, shifting Community Development funds away from poverty areas directing them to older cities with declining populations.

Under the dual formula one would assume the worst an entitlement city could do would be to break even at the same percentage of funding received under the original one-formula system. However, implementation has proven the contrary. The entitlement based upon formula A, under which most Southern cities qualify, is only 80% of the amount that would be calculated if the same funds were allocated using the original formula.

I am not here to raise the issue of interregional funding trends nor to enter into the already too prominent issue of regionalism but rather to draw attention to what I believe are the inequities and the inadequacies of the present dual allocation formula in addressing need. In this time when the American public is demanding fiscal responsibility and restraint in all government programs I firmly believe that it is only appropriate to examine the CDBG allocation formula and make the necessary changes to offset the inadequacies, mal-targeting and waste in this program.

The inability of the dual formula to meet the needs of our nation's urban centers and adequately target funding to cities of large minority populations, poverty and substandard housing is largely due to the inordinate weight given to the age of housing variable in formula B. Studies have shown that the age of housing factor accounts for almost two-thirds of the allocation changes caused by the shift to a dual formula. The very disturbing part is that the pre-1940 age of housing variable is not significantly related to indicators of urban economic or social conditions, to a city's minority population, amount of poverty, nor, most importantly inadequate housing. In fact, as it has been demonstrated in my region, a city with a relatively large minority population and a large number of poor people is likely to receive less community development aid under the dual formula.

I believe that we could all agree that pre-1940 housing has a greater incidence of poor and substandard housing, however, this variable by itself does not direct funds to inadequate pre-1940 housing and is not a reliable indicator of a city's condition. For example, using 1970 figures, cities such as Minneapolis with 68% pre-1940 housing, San Francisco with 67%, or Portland with 57% all have a median to less than median incidence of intercity and neighborhood problems.

The Mayor of Minneapolis, in a letter to Nation's City Weekly, expressed his concern over a study that concluded Minneapolis was a "distressed" city.

Articulating many of my concerns over the age of housing variable, Mayor Fraser wrote; "After careful review of the study, we find that our current 'distress' in Minneapolis stems from the research itself, rather than the condition of our city. Frankly, we reject the conclusions of the Fossett-Nathan study. The methodology is not credible."

He continues by saying; "The critical figure is the percentage of pre-1940 housing still in place in 1970. The problem with this figure is that it ignores quality of construction, maintenance and rehabilitation. It is true that cities with a proportion of newer housing are often growing cities, but such a truism does little for our understanding of urban conditions."

The South and the West "grew-up" after World War II, but post-war growth is not an indication of the urban need of these areas, the number of overcrowded and substandard housing units, nor the adequacy of a city's infrastructure. The pre-1940 age of housing variable alone is not a reliable indicator of a city's condition.

Minor adjustment to the allocation formulas could reduce waste and enable the present formula to better address the needs of urban areas. Studies conducted by the Department of Housing and Urban Development and by numerous research groups have indicated that weighting the age of housing count by poverty can only improve the dual allocation formula's ability to meet urban need. A study entitled, City and Community Development Funding, which was conducted by HUD, has provided formulas which would impact specific variables within the dual formula. These impaction formulas emphasize the intensity of a city's need and is certain to increase the aggregate targeting of CDBG funding to the neediest cities.

I feel that a very prudent method of offsetting the inequities and inadequacies in the present formula would be to impact the age of housing and

the overcrowded housing variables by poverty.

For far too long the discussion as well as the efforts to improve this program have been gravely inhibited by regional interests. To weight the pre-1940 age of housing variable with a poverty factor is not a regional issue because such a change would benefit all areas which are in definite need of community development assistance. The impaction formula which I have mentioned would benefit many southern cities but it would also benefit the cities of the North that are in desperate need of these funds. They would include: Camden, Newark, Paterson, New York, Cleveland, Detroit, Philadelphia, St. Louis and East St. Louis.

By weighting the pre-1940 variable by poverty we can more accurately target need, and lay to rest the interregional rivalries which have been allowed to overlay the basic goals of the CDBG program and supercede the needs of cities.

Thank you very much.

Metropolitan Development and Housing Agency
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June 17, 1981

Honorable David Durenberger
Chairman
Subcommittee on Intergovernmental Relations
301 1st Street, N.E. - Room 507
Washington, D. C. 20510

Dear Senator Durenberger:

My name is Gerald F. Nicely. I am the Executive Director of the Metropolitan Development and Housing Agency of Nashville and Davidson County, Tennessee. I have been in this position for approximately 1½ years and I have been with this organization for 2 years. Prior to that, I spent 10 years as a staff member with the Metropolitan Planning Commission. The primary purpose of this letter is to provide, for the record of your Subcommittee on Intergovernmental Relations, a response to testimony presented to your committee by Ms. Jean Smith, Co-Chair of the Nashville Communities Organized for Progress, which was submitted to your Subcommittee on June 11, 1981. It is my understanding that your Subcommittee's record is still open with respect to the oversight hearings at which Ms. Smith's testimony was presented.

First, I would like to give an overview of our experience with the NCOP group which has been "monitoring" this city's Community Development Program for the past 2 years or so. A portion of this group's funding has been in the form of a grant from the Community Services Administration through the National Community Development Monitoring Project. To date, their local monitoring activities have basically consisted of the issuance of press releases which contain lists of "demands" upon the city with respect to the CDBG program. These releases have usually been accompanied by strenuous efforts to entice the local news media into accompanying them to the offices of local officials for rather artificially staged confrontations. The releases have invariably contained inaccurate statistical materials purporting to prove that the local CD program is being mismanaged. I might add that several of the salaried staff of the local CD monitoring group have also been active among some of our local public housing residents. This activity also involves various "demands" on our Agency issued in the form of inflammatory news releases. In my view this group is striving to become a political force in this community.

Let me stress that as a public official I fully expect my actions and that of the Agency for which I work to be fully scrutinized by the public. Such scrutiny goes with the territory. I do find it rather incongruous, however, that the federal government would use a block grant mechanism to fund sound programs such as Community Development on the one hand, then fund separate organizations to monitor the local performance on the other. More appropriately, the word "disrupt" can be substituted for "monitor" in the local case. This spectacle of the federal government supplying funds which are, in effect, used to hamper the local administration of block grant activities reveals to me a

lack of total commitment to the type of federal/local government partnership to which I am sure most members of the current Congress are committed. It further implies a lack of confidence in both local officials and HUD Regional and Area Office staffs who are legally charged with administering and overseeing the use of CDBG funds. Let me assure you that these views are not intended to deprecate or dilute the citizen participation requirements of the CDBG program. We currently have 10 citizen groups participating in our CD program. They have been, and will continue to be, an integral part of our Community Development effort.

Now, if I may, I would like to respond to some of the specific charges made in Ms. Smith's testimony on June 11, 1981. First, Ms. Smith charged that CDBG funds had been used for political favoritism. I categorically deny this charge. Obviously, any time programs are involved in the political process you are going to have certain political factors to consider. Nonetheless, I think our CD program has been planned and carried out in a highly professional manner. One project cited to prove her thesis of political favoritism by Ms. Smith relates to a truck by-pass which was submitted as an improvement in one of our neighborhood strategy areas as part of our three-year plan presented to HUD in 1979. I would like to point out that this particular project had been in the local capital improvements budget since 1977. Our planning process in a Community Development target area usually involves the submission to the citizens group of a list of possible site improvements. The initial list invariably includes projects contained in the local capital improvements budget. In many instances, the citizens group accepts these projects and we submit them on to HUD for approval; and in other cases, they may modify or totally eliminate certain projects. In the case of the truck by-pass, the committee originally approved it as part of their three-year plan and the local housing authority, which administers the CD program here in Nashville, then submitted it to HUD for review. When questions were later raised and the citizens group withdrew its support for the project, we proceeded to reprogram the money to other projects. Ms. Smith's charge that "the city administration owed a favor to the college and saw this as a way to repay it without tapping local revenues" is absurd. To my knowledge, the Chief Executive Officer was not even aware that this specific project was planned until it had already been submitted to the Department of Housing and Urban Development. Personally, I feel that the truck by-pass would still have been an advantageous project for this particular neighborhood because it would have dealt with certain long-standing traffic problems.

Ms. Smith also implies that the city has spent a great deal of money in the downtown area of Nashville on "pet projects". I would like to set the record straight on this particular matter. As you know, the Community Development Block Grant Program was designed to replace 5 old categorical grant programs -- one of which was the traditional Urban Renewal Program. In Nashville, one of our largest urban renewal projects at that time was in the downtown area. The city and federal governments combined to spend almost $28 million on this Central Loop Urban Renewal Project. Consequently, I do not feel that a modest expenditure

of funds downtown is particularly out of line with either the spirit or the intent of the CDBG program. To date, the city of Nashville has allocated a grand total of $2.9 million out of a seven-year allocation of $62.9 million under the CDBG. In other words, less than 5% of our total CDBG allocations for the first 7 years has been allocated for downtown projects. I would also like to point out all the CD funded projects for downtown are part of the city's general downtown plan which has been in effect for some 15-20 years.

During her testimony, Ms. Smith attacked both the city's Mayor and the Metropolitan Council, the local legislative body, for their handling of the Community Development Block Grant Program. I can state from experience, having worked on the CD program both as a member of the Planning Commission staff and since becoming the Executive Director of the Metropolitan Development and Housing Agency, that both the Mayor and the Metropolitan Council have, for the most part, accepted the grant proposals as submitted by MDHA and the local planning agency with little or no change. The Mayor's primary concern has been that an adequate amount of funds be allocated for the rehabilitation of housing and he has consistently advocated that a substantial share of our CDBG monies be devoted to this purpose. The Metropolitan Council has closely monitored the CDBG program and, indeed, an oversight committee of the Council was created several years ago and has closely monitored the activities of the local program. The members of that committee have conscientiously attempted to see that the spirit and intent of the various housing and community development acts have been carried out on the local level.

Another charge made in Ms. Smith's testimony was that the city was not targeting enough funds for housing. Again, I beg to differ with her opinion and would like to state that over the first 7 years of the program approximately 38% of the total grant has been allocated for housing assistance -- particularly the rehabilitation of homeowner units. During the current CD year, which is our seventh, some 49% of the funds have been allocated to housing assistance. It is my understanding that nationally approximately 35% of CD funds to entitlement cities have been so allocated. Consequently, I think we in Nashville can proudly point to the fact that we have made strenuous efforts to use CD money in the area of housing for low and moderate income persons. In addition, over this period, we made extensive use of the Section 312 loan program in CD NSA's. I would like to further point out in contrast to Ms. Smith's implication that our funds are not being targeted to low and moderate income residents, that since the HUD guideline that at least 75% of a city's CD funds for any application year should be targeted to low and moderate income was instituted in 1977, this city has consistently targeted over 95% of its funds for low and moderate income purposes according to HUD definitions.

Finally, I would like to point out that Ms. Smith's call for the tightening of the "regs" for the Community Development Block Grant Program is very revealing. It is my strong feeling that federal bureaucracy still contains many who really are not committed to the concept of creative federalism. I feel that the Community Services Administration's "monitoring grants" for the Community Development program is an example of this continuing rear guard action on the

part of certain persons in the federal establishment to inhibit the move toward greater local autonomy in the administration of such programs. It is my view that Congress must make a decision as to whether or not it truly wants effective local/state administration of many of these efforts which have long been under categorical grant programs coming from the federal government. If such a decentralization of decision-making is indeed the will of Congress, as I believe it is, the cities, counties and states must be granted the authority, as well as the responsibility, for carrying out these programs and it must be done with a minimum of guidelines and hectoring by federally financed "monitoring groups" arriving on the scene to disrupt the local government's efforts to carry out such programs.

I want to thank you and the Subcommittee for this opportunity to present this written testimony in rebuttal to some of the information presented at your meeting on June 11, 1981. If any more information is needed, and I can help in any way, do not hesitate to contact me or any member of our staff here at the Metropolitan Development and Housing Agency.

Sincerely,

Gerald F. Nicely
Executive Director

GFN:jm

11-424 O - 83 - 8

REVIEW OF HUD MONITORING
OF COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS
AND HOUSING ASSISTANCE PLANS
MAY 1981

REPORT SUMMARY

The attached report by the Monitoring Project of the Working Group for Community Development Reform evaluates HUD monitoring of the Community Development Block Grant Program.

The Working Group views monitoring as a particularly important activity in the CDBG program for a number of reasons. Monitoring by HUD is a primary method for assessing performance in various localities; detecting programmatic and administrative problems; offering recommendations for corrective actions; and providing information useful for future decision-making by HUD, grantees, and citizens. A review of HUD monitoring is also crucial at this time. In the early years of CDBG, HUD Area Offices received little guidance for monitoring grantee performance. Largely in reaction to the resulting confusion, HUD in 1979 issued a Monitoring Handbook, which provided standards and more detailed instructions for carrying out all aspects of the monitoring process. The Monitoring Project's report answers several specific questions about the Handbook and Area Office compliance with its directives, as well as addressing citizen involvement in HUD monitoring and HUD's substantive assistance to grantees. These answers are especially enlightening given the current likelihood of HUD retrenchment, once again, from vigorous involvement in local programs.

The study compares fifteen representative grantees, located in HUD area office jurisdictions in every region of the country. Through document reviews, site visits, and interviews, the Project evaluated HUD monitoring of three major CDBG issues: program progress, benefit to low and moderate income people, and Housing Assistance Plan performance. Highlights of the report's findings are presented below.

HUD Method of Review

The Monitoring Project found a major methodological weakness in HUD's failure to utilize information gathered by citizens. Despite the Handbook's requirement for citizen interviews, only a few HUD representatives contacted citizen groups for their assessments of program progress, targeting of benefits, and HAP performance. Given staff time constraints in monitoring, HUD would be well-advised to seek out additional information sources familiar with local CDBG programs. Citizen knowledge can also help HUD representatives test the validity of the data fed to them by grantee staff in interviews and in the Grantee Performance Reports. The Monitoring Project report also reveals that HUD failed to select for monitoring many programs with substantial delay problems and ignored some HAP performance problems. Early citizen input may have alerted HUD to these difficulties as well.

Standards

Vague or ineffective standards were responsible for monitoring deficiencies in all three areas reviewed in the report. The Monitoring Handbook for example, does not include criteria for timely program performance, even among functionally equivalent projects such as housing rehabilitation. While drawdown rates were used to judge program progress as a whole, interviews with HUD staff confirmed an absence of standards for acceptable performance in individual projects.

The Handbook's very low standard for compliance with the low-income benefit requirement has contributed to an almost universal failure to review this issue. Low and moderate income benefit in economic development activities also was neglected by all HUD monitors in their reports. Apparently, more direction is needed from HUD's Central Office to focus attention on this area. Although the Handbook requires a review of grantee steps to minimize displacement, HUD's Central Office has not instructed field staff to monitor anti-displacement activities in affected areas. The emphasis on documentary reviews has produced a proliferation of grantee paper strategies, with few attempts to determine their effectiveness.

In assessing HAP performance, very few HUD representatives used the 15% minimum HAP goal, or compared performance across jurisdictions. HUD's area offices might develop more useful standards if a national data base on grantees' HAP performance were readily available.

Reporting

The Monitoring Project study criticizes HUD's monitoring reports on program progress and program benefit for incompleteness and lack of detail. In many cases, supporting data were omitted precluding independent assessment of the reports' conclusions. Monitoring reports would be more comprehensive and informative if they were prepared with a wider audience in mind. Many of the reviews of program progress suffered from selective reporting that over-emphasized negative findings at the expense of describing models for program efficiency. The HAP performance reports, in contrast, tended to include all findings and observations, perhaps because supporting material is housed in HUD offices.

Recommendations for Corrective Actions and Assistance

Most Grantee staff interviewed for the study stressed HUD's marginal role in providing solutions to CDBG performance problems. HUD usually made only general recommendations for remedying program defects and failed to offer substantive assistance. While HUD's limited staff and resources prevents much concrete technical and management assistance, HUD should have a greater capacity to make specific programmatic recommendations. With the exception of housing rehabilitation, HUD apparently lacks a body of information for staff to use in assisting grantees with delay problems. HUD recommendations on HAP performance on the other hand, were more specific and substantive, although the level of specificity varied from office to office. The Monitoring Project Report suggests more periodic reviews of progress towards HAP goals would help both HUD and grantee staff in early detection of problems.

Monitoring Community Development:

A Summary of The Citizens' Evaluation of the Community Development Block Grant Program

The Working Group for Community Development Reform

INTRODUCTION

This is the summary of the first report from the National Citizens' Monitoring Project on Community Development Block Grants, a unique experiment in involving local citizens and their organizations in conducting an in-depth evaluation of a major federal program. The report brings together research by citizen monitors in thirty-six cities and counties throughout the United States. It focuses on a series of issues related to the basic quality and impact of the local governments' performance with regard to housing and economic development programming under the Block Grant program, while it also looks more broadly at a series of issues related to local compliance with federal standards.

The National Citizens' Monitoring Project is a project of the Working Group for Community Development Reform, a coalition of more than seventy-five national, regional, and local organizations. It is supported by the Community Services Administration under Title IX of CSA's enabling legislation. Title IX mandates that CSA evaluate the impact of federal programs upon the poor, the people whom CSA was created to serve. CSA funds this project, and a parallel project by Rural America, Inc., for nonmetropolitan areas, because of its concern about the impact of the $4 billion Block Grant program upon the housing, economic, and social conditions of low- and moderate-income people.

The report from the National Citizens' Monitoring Project on Community Development Block Grants adds a new perspective to past evaluations of the Block Grant program. This new perspective comes from local citizens, who, through participation in the Project, have systematically reviewed how the Block Grant program is operating at the local level. Following a controlled research method, local citizens' organizations have monitored various aspects of how local governments in thirty-six jurisdictions have implemented the program, what its impact has been, and who has benefited. This is the first national evaluation based on the citizens' view of the program's successes and difficulties.

The Monitoring Project has two features which are of considerable importance in policy terms. First, it offers the federal government the opportunity to learn much more about the citizens' view of how the CDBG program is operating. This information supplements other studies and gives organizations representing residents of blighted areas and low- and moderate-income people in general an opportunity to conduct a rigorous assessment of this major program.

Second, it represents the federal government's first major experiment with a relatively new and extremely promising form of citizen participation—citizen monitoring and assessment. The organizations which make up the Working Group for Community Development Reform strongly believe that citizen monitoring—with adequate funding, a careful research approach, and sufficient training and technical assistance—can make a crucially important contribution to efforts to make government programs more effective and useful. If federal programs are to be decentralized, if goals are to be set and responsibilities laid at the local level, it is essential that serious attention be given to strengthening the ability of local citizens to monitor and evaluate those programs and to work with local governments to improve them.

The Project has three goals. The first is to strengthen the capacity, knowledge, sophistication, and influence of local citizens on CDBG issues. The second is to increase national understanding of how CDBG works, what its impact is, what its strengths and weaknesses are, how it might be improved, and to what extent there are inherent problems with its approach to addressing local needs. The third is to test the validity of citizen monitoring under the auspices of independent government agencies as an approach to evaluating federal programs and increasing citizen influence.

The pattern which emerges from the monitors' research is a troubling one. It is a pattern which shows many local governments having severe difficulty setting local goals, developing the capacity to pursue those goals, and then evaluating their own progress so that they can establish increasingly effective and useful programs. It is a pattern which shows that local mayors—as well as city councils, citizens, and HUD—often do not have the basic information they need to monitor what is happening with the $4 billion Congress appropriates each year, and to ensure that it is spent in ways which meet local goals and national objectives. It is a pattern which raises the prospect that many local governments have not yet—six years after enactment of the program—demonstrated that they are developing the capacity and the political will to implement the Block Grant program effectively.

The Working Group shares the widespread concern that the Block Grant program—as currently implemented by local governments—is exceedingly vulnerable. By almost any measure, most cities and counties have severe performance problems. Drawdown rates are slow, administrative costs are high, the pace of programs frustrating, and the impact unclear. Sooner or later, a budget-conscious Congress, which necessarily is becoming increasingly concerned about effective performance in all programs, is bound to consider severe cuts in CDBG. The program's supporters must now begin an open and forthright debate about how the program is working and how it must be strengthened.

The Working Group feels strongly that this record of performance can be strengthened and that the program can become much more effective and useful to the local communities. But this will require a series of new measures to strengthen performance standards and to build the capacity of local governments. It will also require an expansion of informed, activist citizen monitoring so that local citizens can become increasingly effective in pressing for more effective, accountable, and targeted local CDBG programming. Finally, it will require increased congressional and HUD oversight to ensure that the requirements of the federal statutes and regulations are followed.

The Community Development Block Grant Program

The Community Development Block Grant program was enacted into law on August 22, 1974, as Title I of the Housing and Community Development Act of 1974. It replaced several HUD categorical programs—including urban renewal, Model Cities, open space, water and sewer, and code enforcement—with a large flexible block grant to local governments.

Under the program, all cities over 50,000 people and all counties with populations over 200,000 (excluding their larger cities) are entitled to receive an annual Block Grant for an amount which is set on the basis of a jurisdiction's population, poverty, and other factors if they submit an acceptable application. The funds can be used for a wide variety of programs ranging from acquisition of property to construction or improvement of sewer lines, streets, and parks to housing rehabilitation to social services.

To receive funds a local government must submit an application each year, stating its needs and priorities, and listing its proposed CD projects, their locations, their cost, and their relationship to the priorities of the Act. The application must also include a Housing Assistance Plan which identifies housing conditions and needs. This plan must give special attention to how the local government will help house low- and moderate-income people, racial minorities, the elderly, female heads of household, and other identifiable groups with special housing needs.

As a rule, CD applications are quite brief. They are set forth on forms which require little detail on the proposed projects. This greatly simplifies paperwork, but it leaves many questions about the exact nature of the projects and their impact unanswered when the application is reviewed.

The Jurisdictions Monitored

The National Citizens' Monitoring Project gathered data from thirty-six jurisdictions, whose combined Year V CDBG entitlement allocations represent over thirty percent of the $2.65 billion metropolitan entitlement funding authorization for fiscal year 1979. These jurisdictions represent a broad mixture of size, geographic area, and CDBG entitlement amount.[1] Nine of them are considered "largest entitlement" jurisdictions because they are among the ten receiving the largest CDBG entitlement grants for Year V. Eight are urban counties, and the rest have 1976 populations in excess of 50,000.

The Monitoring Groups

The monitoring groups included a rather wide variety of types of organizations concerned with Community Development Block Grants. This diversity gave the project the opportunity to learn more about the relative effectiveness and advantages of different approaches to citizen monitoring and involvement, and to refine its monitoring approach for subsequent years. It also gave the project the opportunity to contract with whatever local organizations or coalitions best met the selection criteria set by the Project.

[1] See Appendix for a list of Jurisdictions and Selected Characteristics

ECONOMIC DEVELOPMENT

Grantee performance evaluation in the area of economic development was undertaken in twelve jurisdictions nationwide. These localities had significant minority populations and above average unemployment. They varied in both size and geographic location and amounted to over $37 million in planned CDBG expenditures.[2]

The in-depth case studies prepared by monitors on economic development yielded significant information about the following issues: local goal setting, benefit to low- and moderate-income residents, employment, essential services, impact on minorities, administration, information availability and citizen participation. What follows is a brief overview of the findings in each of these areas.

Local Goal Setting

The lack of clear, well-defined, quantifiable goals is strikingly prevalent throughout the case studies. In nine of the twelve jurisdictions, goals are so vague (e.g., to improve a deteriorated neighborhood) that there is no way to measure progress or to determine if activities are likely to produce the results claimed by the jurisdiction. The situation compounds the difficulty of assessing the program's impact on and benefit to low- and moderate-income residents.

Benefit to Low- and Moderate-Income Residents

Findings reveal that in seven of the twelve cases studied, the project is in no way targeted to benefit low- and moderate-income residents. In the remaining cases, evidence of specific targeting is available but weak at best. A distinct problem in measuring benefit to low- and moderate-income residents is that HUD in practice frequently assumes that a project located in an area with low- and moderate-income residents will benefit those residents.[3] This clearly is not often the case.

Employment

Findings in this area show that job creation and retention are low priorities for most jurisdictions. Job creation and retention is a stated goal in only five of the twelve cases, and only one site targeted jobs to residents of low and moderate income. Monitors found no examples of projects where the jurisdiction included specific numbers of new or retained jobs projected for low- and moderate-income residents. Monitors found no evidence of contractual requirements upon developers, retailers, or industries who would benefit from the project concerning the hiring of unemployed or underemployed or other low- and moderate-income persons for jobs likely to result from the project. Finally, none of the projects were linked with specific employment and training efforts (such as CETA) which could help ensure the identification, hiring, training, and advancement of local unemployed and lower income people in the projects.

Essential Services

Monitors found that jurisdictions failed to assess what services were needed during the planning of projects and that they did not identify what services would be provided by these projects. Ten of twelve adopted goals are directed to redevelopment and revitalization activities—projects geared to making areas economically or commercially viable while relegating the provision of neighborhood essential services to the realm of happenstance. Finally, the failure to target activities to specific areas where services, if provided, would benefit low- and moderate-income residents, reveals a lack of commitment and intention on the part of these jurisdictions to meet the needs of low- and moderate-income residents in the area of essential services.

Minorities

Although all CDBG activities are covered under Title VI of the 1964 Civil Rights Act, Executive Orders 11246 and 11375, as well as by Section 3 requirements, only three of the twelve have strong minority hiring or contracting requirements. These findings demonstrate a laissez-faire attitude on the part of jurisdictions toward these affirmative action obligations. Monitors' research also revealed that a disproportionately high percentage of minorities was displaced. Further, only a small percentage of contracts went to minorities. In addition, few neighborhood revitalization projects occurred in minority areas, and the rate of completion of these projects was slower than in white neighborhoods. Finally, monitors found evidence of discriminatory practices against minority workers.

Administration

Nine of the twelve studies reveal severe administrative problems. Examples of high administrative costs are prevalent, with one jurisdiction spending $67,000 out of $100,000 on administration, planning, and appraisal. Records of progress showing the percentage of work completed are non-existent in these nine jurisdictions. Long delays in completion and implementation are reported by monitors, with one jurisdiction still in early planning stages two years after a project was approved. Most factors causing delays (such as faulty technical data, lack of specific goals, inadequate staff, and policy changes) should have been anticipated in the planning stages. Unfortunately, HUD's estimate of timeliness of economic development projects is in striking contrast to local monitors' finding. Finally, monitors found that in most cases it is virtually impossible to assess cost benefit. Furthermore, no jurisdiction studied is in the process of developing an effective record-keeping system so that such an analysis can be undertaken by the jurisdiction, HUD, or any other organization.

Information Availability

Monitors report that seven of the twelve jurisdictions have incomplete or unavailable data on projects, while one jurisdiction refused outright to provide information to the monitor. Findings show discrepancies in both the financial data provided by the jurisdictions to the monitors and the information provided on the impact of projects on lower-income residents. This reflects negatively on the jurisdictions' commitment and ability to set objectives and evaluate projects for benefit to lower-income residents.

[2] End of this chapter.

[3] Fourth Annual Report p. II-8

Citizen Participation

Seven of the twelve jurisdictions studied are out of compliance with HUD's standards of citizen participation. Citizen Advisory Boards and project area committees show inadequate representation of minorities and lower-income persons, and nearly all of the projects were primarily designed by staff, business representatives, and some public officials. In some cases the present low level of citizen participation is consistent with the history of the projects.

These twelve case studies provide ample evidence that local governments are having grave difficulty planning and mounting effective economic development programs. They are having trouble setting local goals, developing the capacity to meet those goals, and then evaluating their own progress so that they can establish increasingly effective and useful programs. Because of these deficiencies, local mayors—as well as city councils, citizens, and HUD—often do not have the basic information on what is happening with the money that will ensure that it is spent in ways which meet local goals and national objectives.

Equally serious, these reports indicate that many projects which are classified by local governments as benefiting low-income people—and approved by HUD as doing so—are not, in fact, having such an impact. The lack of effective measures to require that jobs be targeted and that such beneficial impact be shown raises serious questions about both HUD estimates with regard to the benefit of such activities and the wisdom of HUD's current emphasis on using CDBG funds for economic development.

The monitors made a total of thirty-six recommendations to local officials, citizens, and HUD concerning these twelve projects. The largest number of these recommendations pertained to issues of program design, strategy, and problem analysis. Others suggested organizational improvement.

Two recurring themes in the monitors' recommendations are:

1. CDBG-funded economic development projects need to be more tightly designed overall and with respect to low- and moderate-income benefits; these projects should include quantified goals and mechanisms for ensuring lower-income benefits and timeliness.
2. Cities and counties should use their powers to

Summary Descriptions of Specific Economic Development Projects

No.	Jurisdiction	Project Name	Summary Description
1.	Bergen County, New Jersey	Hackensack Center City Complex	Downtown redevelopment for office, parking, and retail
2.	Chicago, Illinois	Business Area Improvement Program	Public improvements and parking in selected neighborhood commercial areas
3.	Cleveland, Ohio	Assistance to Local Development Corporations	Funds for planning, design, operation, and related improvements in selected areas
4.	Detroit, Michigan	Woodward Avenue Mall	Creation of restricted-traffic covered downtown street mall
5.	Indianapolis, Indiana	Concord Industrial Park	Site preparation for neighborhood Industrial Park
6.	Los Angeles, California	North Hollywood Commercial Revitalization	Planning for new and rehabilitated commercial development in an NSA
7.	Newark, New Jersey	Newark Economic Development Corporation	Funds for part of operating expenses of city-wide economic development agency
8.	New Bedford, Massachusetts	Waterfront Historic District Revitalization	Public improvements, and commercial rehabilitation and restoration
9.	New York City, New York	Brooklyn Fulton Mall Project	Utilities, surface improvements, and commercial rehab on street mall
10.	Rochester, New York	Neighborhood Commercial Development	Public improvements and commercial rehabilitation in selected neighborhoods
11.	San Francisco, California	Yerba Buena Center Project	Acquisition and site preparation for large, multi-use redevelopment downtown
12.	Westchester County, New York	Port Chester Redevelopment Project	Site preparation, residential and commercial rehabilitation, parking, and retail development as part of downtown redevelopment

condition the use of CDBG economic development funds for the achievement of specific project goals by public agencies, contractors, and other participating business enterprises. Such conditioning could include the following kinds of requirements:

a. adherence to specific goals for lower-income permanent job benefits;
b. priority for jurisdictions' own residents to receive jobs created;
c. linkage to CETA-funded employment and training efforts;
d. achievement of significant minority contracting and hiring goals;
e. emphasis on commercial enterprises which provide essential services to low-income persons;
f. use of minority-owned financial institutions and community banks and credit unions for handling project monies; and
g. reinvestment of project profits in community institutions.

Housing Rehabilitation

The proportion of Block Grant funds allocated to housing rehabilitation has gradually increased over the six years since the program began. According to HUD figures, 16.2 percent of all CD funds were allocated to rehab in fourth-year applications.

Monitoring organizations looked at twenty local housing rehabilitation programs funded in whole or in part with CDBG funds. The programs were varied and included loans and grants, multifamily and single family housing, and rental as well as owner-occupied dwellings. The programs were located in seventeen different jurisdictions including urban counties, several of the largest entitlement jurisdictions, and a cross-section of other communities with populations above 50,000. Below is a brief description of what monitors found.

Benefit to Low- and Moderate-Income Persons

In order to assess whether low-income people are benefiting from rehab expenditures, the monitors evaluated many aspects of these programs, among which was the impact of rehabilitation programs that are "income targeted" or "geographically targeted." They also assessed the extent to which rehabilitation funds were used to improve the worst slum and blight conditions, and whether low-income and renter households benefited. Finally, they looked at the negative impacts of such rehabilitation efforts on low- and moderate-income persons and the extent to which these programs cause displacement.

The income-targeted programs reveal serious deficiencies in meeting the needs of low-income people. First, the programs studied are not designed specifically to meet their needs. Many projects established income standards which were often consistent with Section 8 income guidelines and targeted to moderate-income people, while others used a sliding scale and made grants and/or loans in proportion to the household's income. However, in no instance was there an attempt to set aside a certain proportion of the funds for very low-income households to ensure their participation or to develop deeper subsidy programs to improve their ability to participate.

Second, grants when available, were usually far too small to cover a major portion of the rehabilitation costs of a deteriorated home. This is a serious deficiency for low-income persons, who generally cannot afford to take on a significant new debt in order to cover the remainder of the rehab costs.

Third, low-income persons were often effectively excluded from programs which relied on loans from private financial institutions in order to leverage the CD funds. Several monitors observed that a high proportion of households were rejected as participants in such programs. In each instance, the monitors felt an investigation of this phenomenon was in order and that a sifting process was going on which resulted in the low-income households being rejected while moderate-income households obtained loans. To make matters worse, monitors reported that more than one leveraging program raised or considered raising the income eligibility limits to reassure the banks concerning the creditworthiness of beneficiaries.

Geographic area targeting appears to be a very unsatisfactory method of ensuring benefit to low- and moderate-income people. First of all, the monitors noted that geographic targeting does not by itself ensure that the buildings or units rehabilitated will be owned or rented by lower-income persons, even though they may be located in an area with a majority of low- and moderate-income residents. In addition, monitoring efforts reveal that in some cases, the designation of target areas is not adhered to, or that the areas themselves are not, in fact, low- and moderate-income areas. As a consequence, the notion of geographic targeting becomes meaningless. And finally, it is becoming clear that in increasing numbers of cases, geographic targeting can have a counterproductive effect and lead directly to displacement unless there are safeguards built into the program.

Most of the housing rehabilitation programs do not address themselves to severely deteriorated housing. When combined with the overall failure of most programs to meet the needs of low-income people, this raises questions about the willingness of local governments to use rehab programs to meet the most serious needs for housing improvements.

Frequently, the failure of the programs to address severe deterioration is the result of the design of the rehabilitation programs. Monitors noted that the usually low dollar amount of available grants and/or loans virtually assures that only cosmetic repairs will be done. Consequently, the more severely deteriorated units are ignored, and the needs of the households that occupied them are not met through these programs.

A common design factor that limits the ability of rehab programs to meet serious renovation needs is a ban on loans to finance rehabilitation costs which will exceed the market value of the rehabbed unit. This ignores replacement value of the unit and does not recognize that the alternative—removing the unit from the market—will create a need to replace that unit with a far more costly new one.

Another major factor contributing to this problem is the character of the neighborhoods targeted for the program. Monitors indicate that the areas selected for targeted use of the housing rehabilitation program are not usually those areas where the housing is most substandard or the residents are predominantly low- and moderate-income. This strategy reflects the influence of banks, which are reluctant to grant loans in the neediest neighborhoods.

These findings are consistent with the results of other studies. HUD's Fourth Annual Report noted that cities tend not to use neighborhood preservation strategies in "intensively depressed areas or areas occupied exclusively by low- and moderate-income households."[4]

[4] Fourth Annual Report, p. III-9.

The 1977 House Subcommittee report found "relatively few instances in which available community development funds were targeted for the worst areas of their communities."[5] And in 1978, HUD's Director of Evaluation for the Block Grant program stated, "Many local governments are following a conscious policy of triage."[6]

The concern about CD-funded rehabilitation programs most frequently expressed is that they are not directed to renter households. Twelve of the twenty housing rehabilitation programs evaluated are designed exclusively for single family. Only four are designed solely for multifamily dwelling units. Again and again monitors cite statistics illustrating that most low-income people are renters and cannot benefit from homeowner rehabilitation programs.

Figures reported by monitors point up glaringly disproportionate allocations for owner vs. renter needs. One representative example follows. In one jurisdiction, the 1978 HAP identified the following low-income households as those in need of housing assistance:

Owner	967	5%
Renter	18,542	95%
Total	19,509	100%

The figures showing the housing assistance actually provided, however, point up a great disparity between the needs identified and the needs met. Of 967 low-income households assisted in 1978, 35 percent were renters and 65 percent were homeowners. Over the last three years, only 36 percent of the households assisted were renters. Thus the city used 64 percent of its housing resources to benefit homeowners when its own estimates show that homeowners comprised only 5 percent of the total households in need.

Monitors also expressed concern that the multifamily housing rehabilitation programs are not applied well to larger buildings. This resulted partly because the programs are designed with smaller buildings in mind and partly because of the staff's inability to design/or administer programs which would meet the rehab needs of older apartment buildings. As a consequence, the programs tend to ignore substantial needs for rehabilitation in the larger multifamily structures.

Over one-third of the monitors evaluating housing rehabilitation programs feel displacement is resulting from the CDBG housing rehabilitation programs in their jurisdictions. None of these monitors found an adequate strategy to mitigate the effects of this displacement. In at least two instances, HUD seems to agree.

There are several common features to the neighborhoods and housing markets characterized by actual or potential displacement. Those cited most frequently include: low vacancy rates, speculation and rapid turnover of units, an emphasis on cosmetic repairs, selection of units for rehab which are in desirable or potentially desirable neighborhoods, lack of provision to guard against rent increases, and, finally, the lack of a strategy that admits displacement is possible and outlines steps to prevent or mitigate its negative effects.

It is no secret that displacement is occurring under CDBG, that it is frequently linked to triage, and that it is often intended.[7] Most disturbing are those cases in which the city acknowledges the likelihood of displacement but does not develop adequate measures to prevent or mitigate its effects. In some cases requirements that reserve 40 percent of the rehabbed units for low-income households are not enforced; in others the measures outlined are insufficient to deal with the problem of displacement.

[5] 1977 House Staff Report, p. 12.
[6] Quotation from Donald Dodge, Washington, D.C., June 14, 1978.
[7] House Subcommittee Report, 1977.

Minorities

CDBG regulations require that local programs make affirmative efforts toward minority participation in terms of program beneficiaries, employment, and contract opportunities. Federal statutes concerning affirmative action and equal opportunity apply to all CDBG programs.

Despite these requirements, monitors found that seven of the twenty CDBG housing rehabilitation programs perform poorly with respect to minority participation, in clear violation of federal requirements. In one instance cited, only two of the 286 homes rehabilitated are owned by minorities, even though the HAP states that 403 minority households needed assistance out of a total of 2,990. In other words assistance was delivered to less than 1 percent, although the identified need was 13 percent. Such percentages repeat themselves in jurisdiction after jurisdiction.

Violations of compliance with Section 3 of the Housing Code are not uncommon, and the evidence shows that minority contractors are not receiving a healthy proportion of either numbers of contracts or amounts of dollars granted by jurisdictions.

Administration

Fifteen of the twenty housing rehabilitation programs studied were reported by the monitors to have administrative problems. In seven of these instances, HUD also reported in some way on poor performance or inadequate administration. The following issues stand out as those which are most often cited by monitors:

- **In seven of the projects, information about the project's goals and objectives and performance to date is inadequate and/or unavailable. In most of these cases it appears that the program records are so incomplete that the jurisdiction cannot provide sufficient information about the operation of the housing rehabilitation program, who is benefiting, and how many units have been completed. In other instances, the jurisdiction failed to be cooperative in releasing information which may well exist.**
- **In eight of the programs, there was inadequate or poorly trained staff. In most instances, this criticism was linked to other criticisms such as poor performance or long processing delays. In some instances, the monitors believed the poor staffing was indicative of the lack of commitment the city or county had to the program.**
- **In seven of the programs, there were delays of up to four years in getting the program underway. These problems resulted from failure to plan in advance of submitting the CD application, slowness in hiring, changes in program design, or general inability to get the program underway. In several instances, HUD applied pressure to get the program moving.**
- **In six of the programs, specific complaints were cited about high administrative costs. In one program, an auditor-general's report indicated that for every $3.00 spent on rehabilitation, $2.00 was spent on administration (not including overall central administrative costs). In another instance, a program was criticized early in its development for having $2.64 of administrative costs for every $1.00 of rehabilitation costs. Changes were made in the program, but the monitor estimates a current ratio of $5.46 of administrative costs for every $1.00 of rehabilitation.**

- **In five of the programs, a major complaint was the poor quality of the rehabilitation that took place. The complaints ranged from poor materials to poor work quality to incomplete work. The jurisdictions at times assisted in the selection of contractors and in obtaining bids, but did not always assume responsibility for follow-through at the completion of the project. While inspections were often the responsibility of the jurisdiction, they frequently were not done. Rarely did local governments give the homeowner sign-off power concerning the work done. Grievance procedures were rare, and no jurisdiction required a warranty on the work done. In most instances, when incomplete or faulty work was done, the homeowner was left with responsibility for negotiating with the contractor for remedial action.**

Finally, monitors reported serious difficulties in gathering data. Figures were not always available, and often when figures were available, staff could not interpret their meaning. Differences between the goals stated in the HAP and those found in the narrative portion of the application were found by monitors. There are instances where neither the city nor HUD responded to requests for clarification of data.

THE HOUSING ASSISTANCE PLAN

The Housing Assistance Plan (HAP) is the instrument designed by HUD to provide the vital link between planning for community development and housing. Generally, the HAP requires local jurisdictions to provide an assessment of housing conditions and households in need of assistance, an identification of goals to meet those needs, a description of actions the applicant will take to achieve the housing goals, and other information.[8]

While the HAP has not yet lived up to its potential as a planning tool (it is often incomplete, inaccurate, or ignores critical issues), it has by no means become an expendable part of the CDBG application. Indeed, in these times of limited resources the HAP is even more critical as a means to increase careful planning, good administration, and the well-thought-out priorities and strategies necessary to provide housing to those who are most in need.

Thirty-six monitoring organizations nationwide found serious deficiencies in the HAPs submitted by many local governments.[9] What follows is a brief description of the major failures of the HAPs reviewed by local monitors.

Completeness and Accuracy of the Application

Findings reveal that 32 of the jurisdictions monitored omitted at least one of the required items from their applications, and 22 omitted at least two items. These omissions encompassed key elements of the HAP such as a complete local housing strategy, a description and timetable for the three-year housing plan, an estimate of people expected-to-reside (ETR), and identification of households which would be displaced. Serious omissions coupled with a 75-86 percent questionable accuracy rate in the estimates of housing conditions and housing needs reveals an inadequate and incorrect analysis of local situations, which must inevitably result in poor targeting of effort and a misuse of CDBG funds (abuse of the intent of the CDBG program).

Local Assessments of Housing Conditions

An analysis of the descriptions of the condition of the housing stock provided by the 36 jurisdictions monitored reveals significant problems. One such problem is in the estimates of the amount of substandard housing and the number of units suitable for rehabilitation. Estimates are suspect in 33 percent of the sites because local definitions are distorted in a variety of ways. For example, some jurisdictions include only units beyond repair as substandard (thus artifically inflating the number of "standard vacancies"), while others include all substandard units as suitable for rehabilitation. Other distortions occur when categories such as families in overcrowded conditions or families paying a disproportionate amount of money for housing are excluded from the assessment, or when a cost feasibility factor is not incorporated into the definition of suitable for rehabilitation.

Forty-seven percent of the monitors found their jurisdictions' HAPs deficient in supplying accurate maps. These maps are intended to show the locations of substandard and deteriorating housing and their relationship to existing CDBG and other activities which may support aid to these locations. These maps also serve to identify areas where concentrated activities and housing rehabilitation programs would be appropriate. Eleven of the 36 jurisdictions do not even include a map in their application, and six others provide maps whose accuracy and precision are questionable.

And finally, 56 percent of the jurisdictions studied fail to mention the existence of special housing conditions in the community which cause or contribute to the physical deterioration of the housing stock (such as arson, illegal conversions, poor maintenance, or abandonment) or other special conditions (such as disinvestment, speculation, or tax delinquency), which influence availability of housing units. In 19 of the 20 cases referred to above, monitors were able to identify the existence of special housing conditions that their jurisdictions failed to identify.

Local Assessment of Housing Needs

The accuracy of local estimates of need is questionable in 75 percent of the jurisdictions monitored. Three major factors caused the monitors to question accuracy. First, categories of households overlooked by the applicant and accounting for additional needs beyond those set forth in the applications were reported by 44 percent of the monitors. These households include welfare recipients, the deinstitutionalized, and households sharing housing or living in illegally converted units.

The second factor cited by monitors is the discrepancy between the displacement estimate in the HAP and instances of displacement cited elsewhere in the application or the monitors' own estimate of expected displacement. In addition, fourteen of the jurisdictions do not include a displacement strategy in their applications, and nine report no households to be displaced. Three of these are large metropolitan areas where community groups, the media, and others have identified displacement as a problem.

Finally, monitors reported that 39 percent of the jurisdictions did not submit estimates of expected-to-reside households. Four jurisdictions submitted "zero" ETR estimates. Thus, in 50 percent of the jurisdictions studied, there are no figures for ETR estimates. Nine monitors identified failures in their jurisdictions to take into account such special circumstances as new industrial development and migration patterns when developing ETR estimates.

Setting Housing Goals

HUD regulations require that, based on housing needs, the HAP must include three-year goals which meet 15 percent of the need, goals proportional to needs, and goals which reflect progress or lack thereof of meeting goals set in previous HAPs.[10] Monitors found that in 47 percent of the jurisdictions, at least one and often two of

[8] 24 CFR §570.306(b).

[9] The assessment was on the basis of the thirty-six applications as submitted, before HUD review. The submitted applications reflect local government performance without HUD intervention and the information available to mayors, city councils, and citizens during the planning and application stage—the time when they have most input.

[10] 24 CFR §570.306(e)

these requirements were not met. Furthermore, a review of 1977 and 1978 grantee performance reports reveal that 30 out of 36 jurisdictions had not met their 1976 annual housing goals two years later. To make things worse, 50 percent of the jurisdictions failed to meet goals set for either renter or owner tenure type or both, and 55 percent failed to meet three or more of their goals by household type. Finally, in flagrant violation of HUD regulations, seven jurisdictions actually reduced goals in a category where the goals had not been met and thus should have been increased.

Implementing the Housing Assistance Plan

To underscore the importance of the HAP as a plan that is to be implemented, HUD requires all applicants to indicate in their three-year housing program those actions the applicant will take to ensure attainment of the housing goals. The regulations indicate that those actions shall be ones necessary for the applicant to address any special housing needs and conditions cited in the HAP, as well as any actions which must be taken to respond to findings from reviews of past performance. Timetables are also to be set forth. Finally, if applicants anticipate difficulty in achieving goals in newly prepared HAPs, they are to identify what actions they plan to take.[11]

A review of the applicants' responses to these regulations reveals that one-third of the jurisdictions omitted any identification of actions to be taken in their three-year housing program. At least one-fifth failed to identify actions to be taken in their annual housing program. When included, the actions to be taken are often a repeat of selected items suggested in the regulations, without a rationale. There is very little attention to which specific needs or circumstances are being addressed. Virtually no priorities are established.

These problems indicate that the regulations and/or HUD staff have not conveyed effectively the need for jurisdictions to identify how they will assure implementation of their HAP goals.

Fundamental Information Gaps

The local monitors encountered a wide variety of other fundamental problems with the information available on housing assistance. These data problems constitute a severe constraint to local and national analysis of housing assistance, and blocked the Monitoring Project from evaluating a number of issues of central importance.

Provided below is a simple listing of the problems encountered most frequently. It is important to note that the monitors, for the most part, had access to the same information that HUD uses in making its own evaluations.

- **Applicants are confused as to what kinds of circumstances require an identification of special housing conditions and special housing needs.**
- **There are admitted inaccuracies in the grantee performance report because applicants and/or HUD do not have the information needed for the report. As a result, the goals identified and the performance reported are confusing. In many instances the numbers do not total correctly or simply do not make sense.**
- **There is no consistency as to whether grantee performance reports were reporting annual or cumulative performance. There is often no way to identify which is the case for a particular GPR.**
- **Reported HAP goals often include items that cannot be considered appropriate, such as winterization programs. In some instances, the fact that such activities are included in the statement is not evident without considerable probing.**
- **Specific goals or programs are included in the HAP which are not appropriate because they do not relate to low- and moderate-income persons. In addition, monitors questioned inclusion of certain rehabilitation goals and/or performance statements for similar reasons.**
- **There continues to be confusion between committed and occupied units. This results in double-counting and inflated performance estimates. This is especially the case with the existing Section 8 program (where households may not have used their certificates), with committed projects that never materialize, and with rehabilitation funds that are not released.**
- **There are several instances of double-counting in the goals or performance reported. There are even some instances of triple-counting, particularly with units rehabilitated and then leased out under the Section 8 housing program.**
- **There are numerous reports of goals not being identified by household type, tenure type, or even housing type. This was found to be the case in reporting performance as well.**
- **The use of combined reporting for elderly and handicapped housing needs often results in short shrift to handicapped persons. Their specific needs are often not identified at all.**
- **Many applications report zero goals for certain catagories or subcategories of people.**
- **There is little if any guidance as to how an applicant should adjust its goals if its performance substantially exceeded certain goals and neglected others.**
- **There is virtually no reliable performance reporting on housing assistance that served minorities, female heads-of-households, and other special needs.**

The Three-Pronged Test and Eligibility

In order to be eligible for CDBG funds, a proposed program must benefit low-income persons, prevent or eliminate slums and blight, or meet an urgent need. This is called the "three-pronged test." It must also be part of an application which as a whole principally benefits low-income citizens. The second requirement will be discussed in a subsequent section.

All of the local monitors evaluated the extent to which programs met the three-pronged test. More than one-third of the monitors identified activities in their jurisdictions that failed the three-pronged test. They cited 95 different activities. The most frequent of those which failed to pass the test were of the following types: commercial and economic development, public and neighborhood facilities improvements, and parks and recreation facilities.

In addition, the monitors reviewed all individual program activities to determine whether they were eligible activities under the statute. They found relatively few ineligible activities. The two most common reasons cited

[11] 24 CFR §570.306(b) (3) and (4)

by monitors for ineligibility were that the program activities were not related to a Neighborhood Strategy Area as required, or that the program activities were a continuation of established ongoing government activities.

Benefit to Low- and Moderate-Income Persons

After analyzing each activity, monitors frequently challenged the characterization of a number of activities as beneficial to low- and moderate-income people. Twenty-seven (75 percent) of the monitors disagreed with the assertions of their local governments. Monitors pointed out over 250 identifiable activities or projects ranging from tree planting to entire NSA projects to massive downtown projects on which they challenged the validity of local government claims.

Three types of program activities were frequently challenged. Fifty-six percent of the monitors questioned the benefit of particular public facilities to low-income people. Likewise, 37 percent challenged certain housing rehabilitation activities, and 27 percent queried certain public service activities on the basis of benefit.

These findings reinforce the lessons from the case studies on housing rehabilitation and economic development. They show that programs seldom are of real benefit to low- and moderate-income people unless they are carefully designed to respond to the needs of such people, and unless there are very specific and effective measures to target benefit. They also demonstrate a pattern of neglect of low-income people and severely blighted neighborhoods. This raises serious legal and public policy questions. There is little evidence that local governments or HUD are meeting their obligation to respond to the needs of truly low-income people on the basis of "the nature and relative severity of their needs."

CONCLUSIONS AND RECOMMENDATIONS

The Monitoring Project's findings with regard to economic development, housing, benefit, and other aspects of the Community Development program lead to a series of conclusions with regard to the program as a whole.

The Working Group for Community Development Reform has devoted a great deal of time to considering these questions. It has concluded that there is a need for new measures which will greatly toughen HUD's insistence on adequate performance, and which will give local governments another opportunity to demonstrate that they do, in fact, have the capacity and will needed to mount an effective community development program.

A. Conclusions and Related Recommendations Concerning the Community Development Block Grant Process As a Whole:

1. Local Government Capacity:

Findings: Six years after the enactment of the Block Grant program, many local governments have failed to develop the capacity to plan and implement programs which are effective in accomplishing the primary objectives Congress set for the program. This situation raises serious long-range questions about the potential of the CDBG program—which depends so heavily upon the capacity and will of local governments—as a vehicle for community development. It also raises several significant short-range issues. These include department compliance with the statutory requirement that it determine annually whether each local government has the required continuing capacity to carry out its CD program in a timely manner, and the apparent need for increased HUD oversight of, and technical assistance to, local governments.

Recommendations: The Department of Housing and Urban Development and the Congress should begin a thorough reassessment of the Community Development programs, including an examination of the inherent constraints of the Block Grant approach and the extent to which major shifts in policy could limit the damaging impact of those constraints. In particular, in reviewing the findings, conclusions, and recommendations of this report, they should assess the implications for future policy of the following fundamental elements in the design of the Block Grant Program:

- —the massive scale of the program, and the consequent difficulty in overseeing it from the national level without a system of on-site, independent performance monitoring;
- —the distribution of funds on a formula rather than a competitive basis, creating a sense of entitlement among local officials which causes resentment of federal enforcement of even the most basic federal statutory requirements;
- —the stress on local discretion and flexibility, which strengthens this resistance to national standards and priorities and leaves the program vulnerable to pressure to scatter the funds and to use them for general government expenses. This decreases the likelihood that funds will be concentrated on long-term investments and development strategies which will have a substantial impact on future living conditions for low-income people;
- —the distribution of the funds to local officials, and the consequent politicization of the process of setting local priorities. This adds to the pressure to scatter the funds, to reapond to political rather than planning needs, and to resist targeting to politically weak low-income people.

HUD and the Congress should make every effort to improve performance under the Block Grant program, and especially to take measures to ensure that local governments move to comply with the statute and develop the capacity to carry out the program in a timely manner. It should follow a "carrot and stick" approach, with bigger carrots and heftier sticks than the department has used thus far.

The "carrots" should include greatly expanded technical assistance to local governments and neighborhood development groups that have responsibility for CD programs. They should also include a greater emphasis on distributing housing, UDAG, 312, and other funds on the basis of appropriate CDBG performance.

The "sticks" should include tougher sanctions for inadequate performance and clearer, more uniform standards for evaluating the adequacy of performance. To support enforcement of these standards, Congress should appropriate funds for enlargement of HUD's monitoring staff and creation of a national "strike force" which could investigate situations in which there are egregious performance problems.

2. Local Evaluation of CDBG Programs:

Findings: Local governments very seldom conduct or commission an evaluation of their own CDBG programs. City and county councils also generally fail to fulfill their oversight role with regard to CDBG-funded activities. The absence of such evaluation greatly reduces the likelihood that local governments will develop an increasing capacity to assess local needs, to develop plans which meet those needs, and to carry out programs which implement those plans efficiently and effectively.

Recommendations: HUD should require that local governments conduct a thorough performance evaluation of the impact and effectiveness of their own CDBG programs at least once every three years. This evaluation should assess the extent to which local goals reflect local needs, the extent to which the locally set goals are met in a timely manner, and the extent to which the jurisdiction is developing the capacity to carry out various elements of its program. The evaluation should be reviewed in detail by the city or county council and HUD as a part of their oversight responsibilities. It should also be disseminated widely to the general public and reviewed at the annual performance hearing.

3. Application Review:

Findings: In limiting "front-end" reviews of applications, HUD has failed to require that jurisdictions develop goals and plans that are clear and specific enough to indicate how the funds will be spent and what their impact will be. This establishes an inadequate basis upon which the programs can later be assessed by the jurisdictions themselves, their citizens, and HUD.

The absence of careful advance planning also frequently leads to slow performance and either to the use of funds in ways which were not well understood in advance by local citizens, the city or county council, or HUD, or to the reprogramming of funds for other activities.

Recommendations: The CDBG application forms should require a clear link between the statement of needs and each proposed activity, including an explanation of how the proposed activity will address a particular need. The application should also require a greater breakdown of information on each proposed activity so that HUD, local citizens, and local councils will know in advance how much money will be allocated to each project area for each activity over time. This would alleviate the lack of clarity which now exists with regard to activities which are grouped together and listed as a single program or NSA treatment.

HUD should greatly increase direct communications between its Area Offices and citizens during the 75-day review period. Procedures are needed to keep citizens who have commented on the application informed about the Area Office's evaluation of those comments and the local government's response to them. This would enable citizens to clarify or amplify their earlier comments. It would also assure that valid citizen comments about CD plans are not ignored.

4. Performance Review:

Findings: The grantee performance reports submitted to HUD provide insufficient information for the department, local councils, or citizens to assess how well a jurisdiction has performed under the program. Site visits by HUD staff are too brief, infrequent, and isolated from sources of independent criticism to be fully effective in identifying performance problems. Furthermore, their effectiveness is limited by the basic conflict in roles each Area Office faces with regard to CDBG; each Office must work with local governments and help them pursue their objectives, while also acting as an independent monitor, evaluator, and critic of those same local governments. Finally, the vagueness of HUD standards on many crucial performance questions forces Area Office personnel to interpret those standards, leading to charges of arbitrariness, undue interference, and inconsistency among Area Offices.

Recommendations: HUD should require more detailed, substantive reporting and, especially, self-evaluation against locally-set goals in the grantee performance report.

HUD site monitoring handbooks should require site monitors to identify and meet with groups and individuals who have critiqued the program and identified performance problems, so that current sources of information are supplemented.

The department should explore the possibility of providing support to citizen groups to monitor and audit performance, thus adding to HUD's current ability to oversee the program and enforce federal standards.

HUD should review its regulations, issuances, and handbooks to replace vague standards with more precise, uniform, and easily enforceable standards.

5. Sanctions:

Findings: HUD has failed to develop clear, consistent standards for the imposition of sanctions. This leaves Area Offices with so much discretion that there are wide variations in the criteria used for imposing sanctions and the nature of the sanctions used. Further, HUD has too frequently failed to follow up on the conditions Area Offices have placed on grants, and in instances where compliance has not been met, HUD has generally failed to apply one of the most effective sanctions—a halt or slowing in the drawdown of funds to cover administrative costs.

Recommendations: HUD should clarify and make uniform the criteria it uses for imposing conditions and sanctions and for determining the nature of the conditions and sanctions it will impose. It is of the utmost importance that HUD eliminate inconsistencies among Area Offices, so that all jurisdictions are subject to the same standards and the same consequences for not meeting those standards.

The department should also diligently evaluate compliance with the conditions it imposes on Block Grants to ensure that inadequate performance is corrected, or that further, more effective sanctions are introduced.

HUD should establish a system of "net performance funding." That system should lead to a reduction in the funds most desired by local governments—funds for administration, planning, and public works—when jurisdictions fail to

meet net, more precise federal standards with regard to timely performance, the drawdown of funds, and housing performance.

6. Citizen Participation:

Findings: The effectiveness of citizen participation during the planning phase is limited because it focuses on an application which provides little detail about the nature of what is being proposed, its impact, and its beneficiaries, and because many local governments amend their applications and reprogram their funds so substantially that there is often little resemblance between what is proposed and what actually happens. Local governments frequently fail to involve citizens in considering proposed amendments and reprogramming, and there are few examples of local governments involving citizens extensively in the design of policies and plans for specific CDBG projects. Such involvement is generally lacking even when a project relates specifically to the needs of a particular neighborhood or minority or income group and the beneficiaries press for direct involvement. Further, local governments seldom involve citizens in assessing programs which are under way or completed, or in modifying plans and priorities for such programs. Finally, local governments quite frequently retaliate against or harass citizens' groups which monitor performance under the Block Grant program or challenge local officials' priorities.

Recommendations: Citizen participation regulations should require jurisdictions to develop procedures for involving community-based organizations and potential beneficiaries fully in the planning and implementation of CDBG projects which focus on particular neighborhoods or target groups. These should provide such groups with technical assistance from specialists of their own choosing, as well as priority for contract and job opportunities emanating from the projects.

HUD's participation regulations should require extensive involvement of citizens and independent community-based organizations in assessing performance. Such groups should be directly involved in the jurisdiction's periodic evaluation of its own performance, and should have an opportunity to present their assessments and views at annual performance hearings.

HUD should explicitly bar any harrassment of or retaliation against citizens groups which monitor local government performance or question local officials' priorities. To this end, HUD should establish a grievance procedure which gives groups an opportunity to appeal for redress from an ombudsman at HUD if they have had CD funds cut off or denied because of their citizen participation activities.

B. Conclusions and Related Recommendations Concerning Specific Aspects of the Block Grant Program:

1. Eligibility of Activities Funded with Block Grants:

Findings: Relatively few local jurisdictions have been shown to be using Block Grant funds for clearly ineligible projects, in part because many ineligible projects proposed by local governments are eliminated due to citizen objections. There are, however, frequent allegations of violations of the statutory ban on use of CDBG funds as a substitute for local financial support for community development activities, and of the ban on use of CD funds to cover the salaries of staff who are not working on CD-related activities.

Recommendations: HUD should clarify its maintenance of effort requirements and establish auditing procedures for eliminating these illegal expenditures.

2. Benefit to Low- and Moderate-Income People:

Findings: Almost one half of the jurisdictions which claim 75 percent benefit do not provide sufficient program and budget information in their applications to demonstrate whether they are, in fact, targeting 75 percent of the funds. Ninety percent of the jurisdictions which provide adequate information claim a higher percentage benefit than the monitors report. Performance assessments demonstrate a wide discrepancy between claimed benefits and real benefits. They show that programs seldom are of real benefit to low-income people unless they are carefully designed to respond to the needs of such people and unless they include specific measures to target benefit effectively.

Recommendations: Application forms and procedures should be revised to provide sufficient information for judging compliance with the statutory benefit standards. For each activity justified as benefiting low-income people, HUD should require a written explanation of how the activity benefits those people. If the purported benefits are "indirect," the application should require jurisdictions to demonstrate in detail how low-income people are expected to benefit. If a proposed activity is not targeted by income eligibility standards as well as by geographic area, HUD should require similar detail in the application.

HUD performance reports should be modified to require similar explanations with regard to benefit. Furthermore, HUD site monitors should devote special attention to scrutinizing projects which claim "indirect" benefit or which fail to have income eligibility standards.

HUD Area Offices should establish direct communication with citizens who have challenged claimed benefit, either in the application review stage or during the implementation of a proposed activity.

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3. Benefit to Truly Low-Income People:

Findings: A great majority of jurisdictions fail to identify and address the specific needs of low-income persons as distinct from moderate-income persons. HUD has failed to develop regulations, applications, and monitoring procedures which will ensure compliance with this statutory requirement.

Recommendations: HUD should require jurisdictions to describe how they have analyzed the "nature and severity" of low-income needs and then use that analysis as the basis for developing programs which meet these needs.

HUD should revise its application forms to require a brief description of how the plans for each activity are geared to reaching out affirmatively to benefit low-income people (e.g., how low-income needs have been assessed, what income limits and set-asides will be used, how the jurisdictions will assure that low-income people participate, etc.).

The grantee performance reports should be revised to require a similar description of how low-income people were benefited by each activity.

HUD monitoring visits should be especially cognizant of issues related to low-income benefit, and should include discussions with poor people's organizations concerning the local needs and performance.

4. Triage:

Findings: There are early indications that many jurisdictions are writing off their most severely blighted and low-income neighborhoods as inappropriate areas for housing and economic development projects. HUD's regulations tend to reinforce this pattern, as they deter spending which will not produce substantial long-term impact within a "reasonable period," while they fail to stress the obligation to meet the needs of very low-income areas. The department's site and neighborhood standards for housing have a similar effect, in that they restrict the development and rehabilitation of housing in minority neighborhoods.

Recommendations: The department should require that the most severely blighted, low-income, and heavily minority neighborhoods must receive special emphasis in the Housing Assistance Plan, economic development strategy and other aspects of the CD plan, in accordance with the relative severity of their needs.

HUD's Neighborhood Strategy Area requirements should require sufficient concentration of resources in these neighborhoods—and a reduction in the scattering of funds elsewhere—so that it is reasonable to expect a substantial long-term impact from CDBG and related spending.

5. Displacement:

Findings: CD-funded projects contribute to the involuntary displacement of lower-income people, but local governments frequently fail to prepare anti-displacement strategies, and HUD has not been effective in requiring local governments to take measures which would prevent or minimize displacement.

Recommendations: HUD's requirements of local anti-displacement strategies should be strengthened to include an analysis of displacement trends and a specific process for addressing needs in housing and other areas.

The CDBG program should require that local governments develop strategies to prevent publicly and privately caused displacement, including measures to keep taxes and rents down for long-term residents of neighborhoods undergoing rising property values. HUD should assume that CD funds aggravate displacement in NSAs and in CD-funded rental rehab projects and therefore should not approve NSA designation, CD, or housing spending in the absence of adequate local anti-displacement strategies.

Federal policy should stress the right of tenants to return to rehabbed buildings or to stay in the immediate neighborhood.

The awarding of UDAGs should be tied to a local government's anti-displacement record, and should require that UDAG projects be consistent with local antidisplacement strategies.

6. Economic Development:

Findings: Unclear goals, a lack of concern with job creation and retention, a failure to target projects benefiting low- and moderate-income people and minorities, slow implementation, and a failure to evaluate program progress, impact, and cost/benefit describe the problems affecting most CD-funded economic development projects.

Recommendations: Congress should amend the Act to limit CD spending on economic development to projects which are part of an economic development strategy benefiting low- and moderate-income people by providing them with job opportunities or essential services.

HUD's application requirements on economic development projects should require clear goals, precise timetables, and carefully designed targeting provisions. Targeting the funds should be tied to local plans to guarantee lower-income benefit from specific projects through such measures as: the creation of entry-level positions and special recruitment, training, and promotion efforts; the sale or lease of land acquired with CD funds subject to covenants with regard to employment; and the involvement of neighborhood development organizations and community development corporations in implementing the program. The performance reports should require that local governments report what progress they have made with regard to these plans.

7. Jobs:

Findings: HUD and local governments have given little attention to Section 3 (which requires targeting of all CD-created jobs and business opportunities to lower-income people and local businesses) and to local governments' civil rights and affirmative action requirements.

Recommendations: Congress should amend Section 3 to clarify its intent and strengthen its provisions. Part I should be modified to stress that permanent as well as temporary employment shall be given to low-income persons, and that plans for such projects shall include measures to create entry-level positions and to recruit, train, and promote lower-income persons to the maximum extent feasible. Part II should be modified to specify that, to the greatest extent feasible, contracts which result from the expenditure of CDBG funds should be awarded to firms and individuals who are socially and economically disadvantaged.

HUD should modify its grantee performance reports to require detailed, accurate reporting on job creation, while also stressing these issues in site monitoring visits.

8. Housing Assistance Plans:

Findings: HAP forms currently concentrate on the reporting of numbers of people requiring housing without any context or analysis. They focus too much attention on some projections which are of little value, while ignoring other critically important housing questions. Many local officials submit HAPs which are often incomplete or inaccurate in their analyses of local housing conditions and needs. As a result, their performance has suffered from inadequate planning and coordination of housing development with the development of public facilities, services, and other related activities. Finally, insufficient or patently inaccurate estimates of local goals, needs, or reporting on performance force HUD to become more involved in application review, amendments, and monitoring than would otherwise be necessary.

Recommendations: A totally revised HAP which allows for an analysis of the housing needs of each neighborhood and the thoughtful allocation of all housing resources is necessary.

The revised HAP should require a housing strategy for each neighborhood and should identify the type of housing assistance proposed, the population to be served, and the timeframe anticipated for occupancy. Community groups should be involved in developing and commenting on the housing strategy.

If a local government modifies its estimates of needs in subsequent HAPs, it should be required to explain what additional needs have emerged and how past needs have been met. HUD should not approve HAP amendments without clear evidence that citizens have been adequately informed about the proposed changes, been allowed to comment, and had their concerns taken into account.

Congress and OMB should resist the temptation to set a national formula for the distribution of funds which does not respond to local needs. HUD allocation of housing funds should conform strictly to the priorities set forth in the HAP. At the same time, Congress should greatly expand funding for subsidized housing so that local governments can meet the housing needs of low-income people, renters, and large families.

9. Housing Performance:

Findings: With few exceptions, the housing performance records of local governments have been marred not only by their inadequate and inaccurate Housing Assistance Plans, but also by their very slow pace in rehabilitating or constructing subsidized housing and their neglect of the needs of renters and families. The neglect of new construction of rental housing for families has been especially egregious.

CD-funded housing rehabilitation programs have generally neglected the needs of the lowest income households, racial minorities, and renters as a whole. Rehab programs have often suffered from inadequate advance planning, slow pace, high administrative costs, and inadequate subsidies. Finally, the quality of the rehab work has often been poor, without adequate inspection at the completion of the work.

Recommendations: Federal policy should be modified to create a uniform and well-understood system of substantial rewards and tough sanctions with regard to housing performance. No jurisdiction should be allowed to continue making excuses for inadequate HAP performance.

A local government should not receive CD, UDAG, or 701 funds unless it has obtained final commitments of a sufficient number of housing units to meet 75 percent of the housing goals set for the previous three years (or demonstrate why it could not achieve that 75 percent record); or set forth a realistic program for achieving those goals through the maximum use of all available housing resources (including §8, 312, state funds, CD funds, etc.).

Alternatively, federal policy should create a bonus fund of §8 and other subsidies for jurisdictions which perform well in providing housing for low-income people, and all funding under the new middle-income, shallow-subsidy program should be targeted to jurisdictions with good performance records.

HUD should stress the obligation of local governments or HUD itself to act as "houser of lasit resort" if other measures fail, in order to justify continued CDBG funding for the jurisdiction.

HUD regulations should require that local jurisdictions give homeowners an opportunity to approve final payment to rehab contractors after inspecting the quality of the workmanship.

C. Conclusions and Related Recommendations Concerning Citizen Monitoring:

1. Citizen Monitoring as an Approach to Evaluation of the Block Grant Program and to Increasing Citizen Participation:

Findings: HUD and congressional oversight of the Block Grant program has been hampered by the lack of accurate information concerning how effectively the program is actually operating at the local level. Traditional channels of information and approaches to evaluation have proven to be too far removed from the local scene; too dependent upon forms, brief site visits, and the self-assessments of the local governments which carry out the program; and too subject to political vicissitudes to adequately oversee a massive, changing, decentralized program.

With adequate financial and research assistance, monitoring of the Block Grant program by citizen groups has been shown to be effective as an approach to assessing actual performance and benefit, and to going past a paper review to looking at the real impact of Block Grant expenditures. Furthermore, citizen monitoring is useful in identifying problems with performance, including violations of statutory and regulatory requirements as well as examples of ineffective or counterproductive programming. Finally, citizen monitors, with an orientation toward action for change, have demonstrated that local pressure is an effective way to push for compliance with federal requirements and for improved government performance.

Citizen monitoring has also increased the effectiveness of local citizen involvement in CDBG, which has often suffered from the fact that citizens usually have difficulty obtaining information on current performance and future plans. Cities and counties with monitoring efforts directed toward increasing citizen knowledge and participation in the Block Grant process have seen expanded citizen involvement in CDBG issues. In many instances, these efforts have had a substantial impact on Block Grant policies and spending patterns.

Recommendations: Congress and the administration should expand and create new sources of funding for citizen monitoring and evaluation of the CDBG program and other federal programs, in order to increase knowledge about these programs' effectiveness and problems. The funding should support local staff and related expenses as well as centralized research, technical back-up, and training. The funding should be directed through national and regional nonprofit organizations to citizen groups which are sufficiently independent to maintain a critical faculty with regard to the program being monitored.

Since this independence is crucial to the effectiveness of monitoring, the selection of such groups should not be subject to local government veto or concurrence requirements.

The independence of the evaluation will be best assured if these efforts are funded by agencies which do not have direct operational responsibility for the particular program being assessed. This will eliminate any conflict of interest.

The federal government should consider whether responsibility for evaluating federal programs should be taken away from the agencies which operate those programs. There are several alternatives to this traditional, problem-ridden pattern. First, Title IX of the Economic Opportunity Act could be expanded to give the Community Services Administration sufficient funds to launch citizen monitoring efforts for several programs which, like CDBG, target funds to benefit low-income people. Second, GAO could be expanded to include a component supporting citizen monitoring as part of an enlarged evaluation capacity. Third, Congress could create a new evaluation agency in the executive branch, with a clear mandate to support citizen monitoring as part of a broader evaluation strategy.

2. Obstacles to Citizen Monitoring:

Findings: Citizen monitoring has been hampered by a series of obstacles including inaccuracy and inadequacy of both local government and HUD information on the use and impact of CDBG funds; the woeful condition of financial records maintained by local governments; the inconsistencies between information provided in CDBG applications and performance reports; the reluctance of some local officials to share available information; the open or latent threat by some local officials to cut off CDBG funds for projects which citizen monitors support or to retaliate in other ways if citizen groups continue their monitoring; HUD's historic skepticism of citizen monitoring efforts; and the lack of procedures requiring HUD monitoring staff to visit citizen monitors and other community groups or elicit from them factual data and assessments concerning the program. For groups not participating in the National Citizens' Monitoring Project, the constraints also include their lack of financial and staff resources and adequate training, technical and legal assistance, and research back-up.

Recommendations: If there is to be an increase in effective monitoring and evaluation of CDBG and in informed citizen involvement, HUD must introduce a series of measures to remove these obstacles. These measures—which have been reviewed above—range from federal insistence that local governments follow the most elementary standards of accurate, consistent, and complete record-keeping to guarantees against harassment of local citizens who are exercising their right to participate in local government decision-making. The fact that such extraordinarily basic issues have not yet been addressed sufficiently stands as a severe indictment of HUD as well as of the local governments which have failed to follow these elementary standards.

APPENDIX

SELECTED CHARACTERISTICS OF JURISDICTIONS MONITORED

JURISDICTION	1970 Population (1)	1970 Percent Negro & Other (2)	1970 SMSA Median Family Income (3)	1970 Median Family Income (3)	Year V CDBG Entitlement Amount (4)
Anchorage, Alaska	48,029	9.3%	$13,580	$13,366	$ 2,012,000
Bergen County, New Jersey	898,012	3.3	12,635	13,597	8,978,000
Boston, Massachusetts	641,071	18.2	11,449	9,133	24,936,000
Brownsville, Texas	52,522	0.7	5,068	4,894	2,936,000
Chattanooga, Tennessee	119,082	36.0	8,513	7,114	4,288,000
Chicago, Illinois	3,366,957	34.4	11,931	10,242	122,280,000
Cleveland, Ohio	750,903	39.0	11,407	9,107	36,979,000
Cleveland Heights, Ohio	60,767	3.2	11,407	13,368	1,825,000
Cuyahoga County, Ohio	1,721,300	19.6	11,407	11,309	3,957,000
Dallas, Texas	844,401	25.8	10,405	10,019	16,159,000
Davenport, Iowa	98,469	4.5	10,504	10,418	1,656,000
Delaware County, Pennsylvania	600,035	7.6	10,783	11,830	3,921,000
Denver, Colorado	514,678	11.0	10,777	9,654	12,267,000
Detroit, Michigan	1,511,482	44.5	12,117	10,045	60,419,000
Euclid, Ohio	71,552	0.9	11,407	11,830	834,000
Indianapolis, Indiana	744,624	18.4	10,754	10,754	11,373,000
Lakewood, Ohio	70,173	0.6	11,407	11,579	2,025,000
Lawrence, Kansas	45,698	8.3	NA	9,365	788,000
Los Angeles, California	2,816,061	22.8	10,972	10,535	32,399,000
Marin County, California	206,038	4.1	11,802	13,935	2,275,000
Mobile, Alabama	190,026	35.7	7,733	8,095	5,126,000
Newark, New Jersey	382,417	56.0	11,847	7,735	16,302,000
New Bedford, Massachusetts	101,777	4.3	8,792	8,230	5,077,000
New York, New York	7,894,862	23.4	10,870	9,682	241,279,000
Oakland County, Michigan	907,871	3.5	12,117	13,826	4,720,000
Philadelphia, Pennsylvania	1,948,609	34.4	10,783	9,366	67,748,000
Rochester, New York	296,233	17.6	11,969	10,002	12,193,000
Saginaw, Michigan	91,849	25.0	10,878	9,995	3,183,000
San Francisco, California	715,674	28.6	11,802	10,503	26,985,000
St. Louis, Missouri	622,236	41.3	10,504	8,182	33,747,000
St. Louis County, Missouri	951,353	5.2	10,504	12,392	8,994,000
Utica, New York	91,611	5.9	9,728	9,008	3,885,000
Wake County, North Carolina	228,453	22.6	9,557	9,557	2,140,000
Washington, D.C.	756,510	72.3	12,933	9,583	27,148,000
Waterloo, Iowa	75,533	9.0	10,054	9,920	1,304,000
Westchester County, New York	894,104	10.2	10,870	13,784	3,406,000

(1) U.S. Department of Commerce, Bureau of the Census, 1970 Census of Population, Number of Inhabitants: U.S. Summary, "Table 31: Land Area and Population of Places of 2500 or More for the United States and Puerto Rico, and of Towns of 2500 or more for the New England States: 1970 and 1960," and "Table 24: Population of Counties," U.S.G.P.O., Washington, D.C., December 1971.

(2) U.S. Department of Commerce, Bureau of the Census, General Population Characteristics: Final Report, Table 16, U.S.G.P.O., Washington, D.C., November 1971. These figures apparently do not include persons of Spanish-speaking heritage.

(3) U.S. Department of Commerce, Bureau of the Census, Census Tracts: Final Report from SMSAs, "Table P-4; Income Characteristics of the Population," U.S.G.P.O., Washington, D.C., May 1972.

(4) U.S. Department of Housing and Urban Development, Entitlement Master List: FY '79 Master, Dept. HUD, Washington, D.C., February 1979.

97TH CONGRESS
1ST SESSION

S. 1197

IN THE HOUSE OF REPRESENTATIVES

JUNE 8, 1981

Referred to the Committee on Banking, Finance and Urban Affairs

AN ACT

To amend and extend certain Federal laws relating to housing, community, and economic development, and related programs, to provide an improved and expedited multifamily mortgage foreclosure procedure, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Housing and Community Development Amendments of 1981".

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TITLE I—COMMUNITY AND ECONOMIC DEVELOPMENT

AUTHORIZATIONS

SEC. 101. Section 103 of the Housing and Community Development Act of 1974 is amended to read as follows:

"AUTHORIZATIONS

"SEC. 103. The Secretary is authorized to make grants to States, units of general local government, and Indian tribes to carry out activities in accordance with the provisions of this title. There are authorized to be appropriated for these purposes not to exceed $4,166,000,000 for each of the fiscal years 1982 and 1983. Sums appropriated pursuant to this section shall remain available until expended.".

STATEMENT OF ACTIVITIES AND REVIEW

SEC. 102. (a) The caption of section 104 of the Housing and Community Development Act of 1974 is amended to

read as follows: "STATEMENT OF ACTIVITIES AND REVIEW".

(b) Subsections (a), (b), and (c) of section 104 of such Act are amended to read as follows:

"(a)(1) Prior to the receipt in any fiscal year of a grant under section 106 by any metropolitan city or urban county, under section 106(d) by any State, or under section 106(d)(2)(B) by any unit of general local government, the grantee shall have prepared a final statement of community development objectives and projected use of funds and shall have provided the Secretary with the certifications required in subsection (b) and, where appropriate, subsection (c). In the case of metropolitan cities and urban counties receiving grants pursuant to section 106(b) and in the case of units of general local government receiving grants pursuant to section 106(d)(2)(B), the statement of projected use of funds shall consist of proposed community development activities. In the case of States receiving grants pursuant to section 106(d), the statement of projected use of funds shall consist of the method by which the States will distribute funds to units of general local government.

"(2) In order to permit public examination and appraisal of such statements, to enhance the public accountability of grantees, and to facilitate coordination of activities with different levels of government, the grantee shall—

"(A) furnish citizens information concerning the amount of funds available for proposed community development and housing activities and the range of activities that may be undertaken,

"(B) publish a proposed statement in such manner to afford affected citizens or, as appropriate, units of general local government an opportunity to examine its content and to submit comments on the proposed statement and on the community development performance of the grantee, and

"(C) hold one or more public hearings to obtain the views of citizens on community development and housing needs.

In preparing the final statement, the grantee shall consider any such comments and views and may, if deemed appropriate by the grantee, modify the proposed statement. The final statement shall be made available to the public, and a copy shall be furnished to the Secretary together with the certifications required under subsection (b) and, where appropriate, subsection (c).

"(b) Any grant under section 106 shall be made only if the grantee certifies to the satisfaction of the Secretary that—

"(1) the grantee is in full compliance with the requirements of subsection (a)(2) (A), (B), and (C), and has made the final statement available to the public;

"(2) the grant will be conducted and administered in conformity with Public Law 88–352 and Public Law 90–284;

"(3) the projected use of funds has been developed so as to give maximum feasible priority to activities which will benefit low- and moderate-income families or aid in the prevention or elimination of slums or blight; the projected use of funds may also include activities which the grantee certifies are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs; and

"(4) the grantee will comply with the other provisions of this title and with other applicable laws.

"(c)(1) Any grant made under section 106(b) shall be made only if the unit of general local government certifies that it is following a current housing assistance plan which has been approved by the Secretary and which—

"(A) accurately surveys the condition of the housing stock in the community and assesses the housing

assistance needs of lower income persons (including elderly and handicapped persons, large families, owners of homes requiring rehabilitation assistance, and persons displaced or to be displaced) residing in or expected to reside in the community as a result of existing or projected changes in employment opportunities and population in the community and its surroundings (and those elderly persons residing in or expected to reside in the community), or as estimated in a community accepted State or regional housing opportunity plan approved by the Secretary, and identifies housing stock which is in a deteriorated condition, including the impact of conversion of rental housing to condominium or cooperative ownership on such needs;

"(B) specifies a realistic annual goal for the number of dwelling units or lower income persons to be assisted, including (i) the relative proportion of new, rehabilitated, and existing dwelling units, including existing rental and owner occupied dwelling units to be upgraded and thereby preserved, (ii) the sizes and types of housing projects and assistance best suited to the needs of lower income persons in the community, and (iii) in the case of subsidized rehabilitation, adequate provisions to assure that a preponderance of per-

sons assisted should be of low and moderate income; and

"(C) indicates the general locations of proposed housing for lower income persons, with the objective of (i) furthering the revitalization of the community, including the restoration and rehabilitation of stable neighborhoods to the maximum extent possible, and the reclamation of the housing stock where feasible through the use of a broad range of techniques for housing restoration by local government, the private sector, or community organizations, including provision of a reasonable opportunity for tenants displaced as a result of such activities to relocate in their immediate neighborhood, (ii) promoting greater choice of housing opportunities and avoiding undue concentrations of assisted persons in areas containing a high proportion of low-income persons, and (iii) assuring the availability of public facilities and services adequate to serve proposed housing projects.

"(2) The Secretary shall establish such dates and manner for the submission of housing assistance plans described in paragraph (1) as the Secretary may prescribe.".

(c)(1) Section 104(d) of such Act is amended to read as follows:

"(d) Each grantee shall submit to the Secretary, at a time determined by the Secretary, a performance report concerning the use of funds made available under section 106, together with an assessment by the grantee of the relationship of such use to the objectives identified in the grantee's statement under subsection (a). The Secretary shall, at least on an annual basis, make such reviews and audits as may be necessary or appropriate to determine—

"(1) in the case of grants made under section 106(b) or section 106(d)(2)(B), whether the grantee has carried out its activities and, where applicable, its housing assistance plan in a timely manner, whether the grantee has carried out those activities and its certifications in a manner which is not plainly inconsistent with the requirements of this title, the primary objectives of this title, and other applicable laws, and whether the grantee has a continuing capacity to carry out those activities in a timely manner; and

"(2) in the case of grants to States made under section 106(d), whether the State has distributed funds to units of general local government in a timely manner and in conformance to the method of distribution described in its statement, whether the State has carried out its certifications in compliance with the requirements of this title and other applicable laws, and

whether the State has made such reviews and audits of the units of general local government as may be necessary or appropriate to determine whether they have satisfied the applicable performance criteria described in paragraph (1) of this subsection.

The Secretary may make appropriate adjustments in the amount of the annual grants in accordance with the Secretary's findings under this subsection. With respect to assistance made available under section 106(d), the Secretary may provide such assistance directly to the units of general local government, or adjust, reduce, or withdraw such assistance, or take other action as appropriate in accordance with the Secretary's reviews and audits under this subsection, except that funds already expended on eligible activities under this title shall not be recaptured or deducted from future assistance to such units of general local government.".

(2) The amendment made by paragraph (1) shall take effect on October 1, 1982.

(d) Section 104 of such Act is amended by striking out subsections (e) and (f) and redesignating subsections (g), (h), (i), and (j) as subsections (e), (f), (g), and (h).

(e) Section 104(f) of such Act, as redesignated by subsection (d) of this section, is amended—

(1) by striking out "applicants" in paragraph (1) and inserting in lieu thereof "recipients of assistance under this title";

(2) by striking out "applicant" wherever it appears and inserting in lieu thereof "recipient of assistance under this title";

(3) by striking out "applications and" in the last sentence of paragraph (2); and

(4) by adding the following new paragraph at the end thereof:

"(4) In the case of grants made to States pursuant to section 106(d), the State shall perform those actions of the Secretary described in paragraph (2) and the performance of such actions shall be deemed to satisfy the Secretary's responsibilities referred to in the second sentence of such paragraph.".

(f) Section 104(g) of such Act, as redesignated by subsection (d) of this section, is amended—

(1) by striking out paragraph (1) and inserting in lieu thereof the following:

"(1) Units of general local government receiving assistance under this title may receive funds, in one payment, in an amount not to exceed the total amount designated in the grant (or, in the case of a unit of general local government receiving a distribution from a State pursuant to section

106(d), not to exceed the total amount of such distribution) for use in establishing a revolving loan fund which is to be established in a private financial institution and which is to be used to finance rehabilitation activities assisted under this title. Rehabilitation activities authorized under this section shall begin within 45 days after receipt of such payment."; and

(2) by striking out the last two sentences of paragraph (2).

ELIGIBLE ACTIVITIES

SEC. 103. (a) Section 105(a) of the Housing and Community Development Act of 1974 is amended—

(1) by striking out paragraph (8) and inserting in lieu thereof the following:

"(8) provision of public services, including but not limited to those concerned with employment, crime prevention, child care, health, drug abuse, education, energy conservation, welfare or recreation needs, if such services have not been provided by the unit of general local government (through funds raised by such unit, or received by such unit from the State in which it is located) during any part of the twelve-month period immediately preceding the date of submission of the statement with respect to which funds are to be made available under this title, and which are to be

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used for such services, unless the Secretary finds that the discontinuation of such services was the result of events not within the control of the unit of general local government except that not more than 10 per centum of the amount of any assistance to a unit of general local government under this title may be used for activities under this paragraph;"; and

(2) by striking out "and" at the end of paragraph (15);

(3) by striking out the period at the end of paragraph (16) and inserting in lieu thereof "; and"; and

(4) by adding at the end thereof the following new paragraph:

"(17) provision of assistance to private, for-profit entities, when the assistance is necessary or appropriate to carry out an economic development project.".

(b) In fiscal years 1982, 1983, and 1984 the Secretary may waive the limitation on the amount of funds which may be used for public services activities under section 105(a)(8) of the Housing and Community Development Act of 1974, as amended by this Act, in the case of a unit of general local government which, during fiscal year 1981, allocated more than 10 per centum of funds received under title I of the Housing and Community Development Act of 1974 for such activities.

ALLOCATION AND DISTRIBUTION OF FUNDS

SEC. 104. (a) Section 106(a) of the Housing and Community Development Act of 1974 is amended to read as follows:

"(a) Of the amount approved in an appropriation Act under section 103 for grants in any year (excluding the amounts provided for use in accordance with section 107 and section 119), 70 per centum shall be allocated by the Secretary to metropolitan cities and urban counties. Except as otherwise specifically authorized, each metropolitan city and urban county shall be entitled to an annual grant from such allocation in an amount not exceeding its basic amount computed pursuant to paragraph (1) or (2) of subsection (b).".

(b) Section 106 of such Act is amended by striking out subsection (c) and redesignating subsections (d), (e), (f), and (g) as subsections (c), (d), (e), and (f), respectively.

(c) Section 106(c), as redesignated by subsection (b) of this section, is amended to read as follows:

"(c) Any amounts allocated to a metropolitan city or urban county pursuant to the preceding provisions of this section which are not received by the city or county for a fiscal year or which become available as a result of actions under section 104(d) or section 111 shall be reallocated in the succeeding fiscal year among the metropolitan cities and urban counties of the same State on the basis of a formula under

which the amount reallocated to each such city or county bears the same ratio to the total amount reallocated to the metropolitan cities and urban counties within that State as the ratio which the amount allocated to that city or county pursuant to the preceding provisions of this section bears to the total amount allocated to the metropolitan cities and urban counties within the State.".

(d) Section 106(d)(1) of such Act, as redesignated by subsection (b) of this section, is amended—

(1) by striking out "section 103(a)" and all that follows through "nonmetropolitan areas of each State" in the first sentence and inserting in lieu thereof the following: "section 103 for grants in any year (excluding the amounts provided for use in accordance with section 107 and section 119), 30 per centum shall be allocated among the States for use in nonentitlement areas. The allocation for each State shall be"; and

(2) by striking out "nonmetropolitan" wherever it appears and inserting in lieu thereof "nonentitlement".

(e) Section 106(d) of such Act, as redesignated by subsection (b) of this section, is amended by striking out paragraphs (2) and (3) and inserting in lieu thereof the following:

"(2)(A) Amounts allocated under paragraph (1) shall be distributed to units of general local government located in

nonentitlement areas of the State to carry out activities in accordance with the provisions of this title—

"(i) by the State, consistent with the statement submitted under section 104(a); or

"(ii) by the Secretary, in any case described in subparagraph (B), for use by units of general local government in accordance with paragraph (3)(B).

"(B) The Secretary shall distribute amounts allocated under paragraph (1) where—

"(i) the State has elected, in such manner and before such time as the Secretary may prescribe, not to distribute such amounts;

"(ii) the State has failed to submit the certifications described in subparagraph (C); or

"(iii) such action is necessary as a result of findings and actions taken pursuant to section 104(d).

"(C) To receive and distribute amounts allocated under paragraph (1), the Governor must certify that the State—

"(i) engages or will engage in planning for community development activities;

"(ii) provides or will provide technical assistance to units of general local government in connection with community development programs;

"(iii) will provide, out of State resources, funds for community development activities in an amount which

is at least 10 per centum of the amounts allocated for use in the State pursuant to paragraph (1); and

"(iv) has consulted with local elected officials from among units of general local government located in nonentitlement areas of that State in determining the method of distribution of funds required by subparagraph (A).

"(3)(A) If the State receives and distributes such amounts, it shall be responsible for the administration of funds so distributed. Such amounts may not be used for administrative expenses incurred by the State in carrying out its responsibilities under this title.

"(B) If the Secretary distributes such amounts, the distribution shall be made in accordance with determinations of the Secretary pursuant to statements submitted and the other requirements of section 104 (other than subsection (c)) and in accordance with regulations and procedures prescribed by the Secretary.

"(C) Any amounts allocated for use in a State for a fiscal year which are not received by that State or the units of local government of that State or which become available as a result of actions taken under section 104(d) or 111 shall be added to amounts available for use in that State in the succeeding fiscal year. Any amounts which are or become available in any case described in paragraph (2)(B)(i) shall be

available for use within the State to which the amounts were allocated.

"(4) In computing amounts under paragraph (1), Indian tribes shall be excluded.".

(f) Section 106(f), as redesignated by subsection (b) of this section, is amended by striking out "(1)" and all that follows through "106(e)" and inserting in lieu thereof "all basic grant entitlement amounts".

(g) Section 102(a)(4) of such Act is amended by inserting before the period at the end thereof the following: ", or until September 30, 1982, whichever is later".

DISCRETIONARY FUND

SEC. 105. Subsections (a), (b), and (c) of section 107 of the Housing and Community Development Act of 1974 are amended to read as follows:

"(a) Of the total amount approved in appropriation Acts under section 103 for each of the fiscal years 1982 and 1983, not more than $60,000,000 for each of the fiscal years 1982 and 1983 may be set aside in a special discretionary fund for grants under subsection (b). Grants under this section are in addition to any other grants which may be made under this title to the same entities for the same purposes.

"(b) From amounts set aside under subsection (a), the Secretary is authorized to make grants—

"(1) in behalf of new communities assisted under title VII of the Housing and Urban Development Act of 1970 or title IV of the Housing and Urban Development Act of 1968 or in behalf of new community projects assisted under title X of the National Housing Act which meet the eligibility standards set forth in title VII of the Housing and Urban Development Act of 1970 and which were the subject of an application or preapplication under such title prior to January 14, 1975;

"(2) in Guam, the Virgin Islands, American Samoa, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands;

"(3) to Indian tribes; and

"(4) to States, units of general local government, Indian tribes, or areawide planning organizations for the purpose of providing technical assistance in planning, developing, and administering assistance under this title, and to States and units of general local government for implementing special projects otherwise authorized under this title. The Secretary may also provide, directly or through contracts, technical assistance under this paragraph to such governmental units, or to a group designated by such a governmental unit

for the purpose of assisting that governmental unit to carry out assistance under this title.

"(c) Amounts set aside for use under subsection (b) in any fiscal year but not used in that year shall remain available for use in subsequent fiscal years in accordance with the provisions of that subsection.".

NONDISCRIMINATION

SEC. 106. Section 109(a) of the Housing and Community Development Act of 1974 is amended by adding the following new sentence at the end thereof: "Any prohibition against discrimination on the basis of age under the Age Discrimination Act of 1975 shall also apply to any such program or activity.".

TRANSITIONAL PROVISIONS

SEC. 107. (a) Any amounts appropriated for any fiscal year before fiscal year 1982 in a Department of Housing and Urban Development-Independent Agencies Appropriation Act or a Supplemental Appropriation Act under the head "COMMUNITY DEVELOPMENT GRANTS" which are or become available for obligation shall remain available as provided by law, and shall be used in accordance with the following:

(1) funds authorized for use under section 106(a) of the Housing and Community Development Act of 1974 before the effective date of this title shall be

available for use as provided by section 106(c) of such Act;

(2) funds authorized for use under section 107 of such Act before the effective date of this title shall be available for use as provided by section 107(c) of such Act; and

(3) funds authorized for use under section 106 (c) or (e) of such Act before the effective date of this title shall be available for use as provided by section 106(d)(3)(A) of such Act.

(b) Any grant or loan which, prior to the effective date of any provision of this title, was obligated and governed by any authority stricken by any provision of this title shall continue to be governed by the provisions of such authority as they existed immediately before such effective date.

URBAN DEVELOPMENT ACTION GRANTS

SEC. 108. (a) Section 119 of the Housing and Community Development Act of 1974 is amended to read as follows:

"URBAN DEVELOPMENT ACTION GRANTS

"SEC. 119. (a) The Secretary is authorized to make urban development action grants to cities and urban counties which are experiencing severe economic distress to help stimulate economic development activity needed to aid in economic recovery. Of the total amount approved in appropriation Acts under section 103 for each of the fiscal years 1982

and 1983, not more than $500,000,000 shall be available for each of the fiscal years 1982 and 1983 for grants under this section.

"(b)(1) Urban development action grants shall be made only to cities and urban counties which have, in the determination of the Secretary, demonstrated results in providing housing for low- and moderate-income persons and in providing equal opportunity in housing and employment for low- and moderate-income persons and members of minority groups. The Secretary shall issue regulations establishing criteria in accordance with the preceding sentence and setting forth minimum standards for determining the level of economic distress of cities and urban counties for eligibility for such grants. These standards shall take into account factors such as the age of housing; the extent of poverty; the extent of population lag; growth of per capita income; and, where data are available, the extent of unemployment and job lag.

"(2) A city or urban county which fails to meet the minimum standards established pursuant to paragraph (1) shall be eligible for assistance under this section if it meets the requirements of the first sentence of such paragraph and—

"(A) in the case of a city with a population of fifty thousand persons or more or an urban county, contains an area (i) composed of one or more contigu-

ous census tracts, enumeration districts, or block groups, as defined by the United States Bureau of the Census, having at least a population of ten thousand persons or 10 per centum of the population of the city or urban county; (ii) in which at least 70 per centum of the residents have incomes below 80 per centum of the median income of the city or urban county; and (iii) in which at least 30 per centum of the residents have incomes below the national poverty level; or

"(B) in the case of a city with a population of less than fifty thousand persons, contains an area (i) composed of one or more contiguous census tracts, enumeration districts, or block groups or other areas defined by the United States Bureau of the Census or for which data certified by the United States Bureau of the Census are available having at least a population of two thousand five hundred persons or 10 per centum of the population of the city, whichever is greater; (ii) in which at least 70 per centum of the residents have incomes below 80 per centum of the median income of the city; and (iii) in which at least 30 per centum of the residents have incomes below the national poverty level.

The Secretary shall use up to, but not more than, 20 per centum of the funds appropriated for use in any fiscal year

under this section for the purpose of making grants to cities and urban counties eligible under this paragraph.

"(c) Applications for assistance under this section shall—

"(1) in the case of an application for a grant under subsection (b)(2), include documentation of grant eligibility in accordance with the standards described in that subsection;

"(2) set forth the activities for which assistance is sought, including (A) an estimate of the costs and general location of the activities; (B) a summary of the public and private resources which are expected to be made available in connection with the activities, including how the activities will take advantage of unique opportunities to attract private investment; and (C) an analysis of the economic benefits which the activities are expected to produce;

"(3) contain a certification satisfactory to the Secretary that the applicant, prior to submission of its application, (A) has held public hearings to obtain the views of citizens, particularly residents of the area in which the proposed activities are to be carried out, and (B) has analyzed the impact of these proposed activities on the residents, particularly those of low and moderate income, of the residential neighborhood, and

on the neighborhood in which they are to be carried out; and

"(4) contain a certification satisfactory to the Secretary that the applicant, prior to submission of its application, (A) has identified all properties, if any, which are included on the National Register of Historic Places and which, as determined by the applicant, will be affected by the project for which the application is made; (B) has identified all other properties, if any, which will be affected by such project and which, as determined by the applicant, may meet the criteria established by the Secretary of the Interior for inclusion on such Register, together with documentation relating to the inclusion of such properties on the Register; (C) has determined the effect, as determined by the applicant, of the project on the properties identified pursuant to clauses (A) and (B); and (D) will comply with the requirements of section 121.

"(d)(1) Except in the case of a city or urban county eligible under subsection (b)(2), the Secretary shall establish selection criteria for grants under this section which must include (A) as the primary criterion, the comparative degree of economic distress among applicants, as measured (in the case of a metropolitan city or urban county) by the differences in the extent of growth lag, the extent of poverty, and

the adjusted age of housing in the metropolitan city or urban county; (B) other factors determined to be relevant by the Secretary in assessing the comparative degree of economic deterioration in cities and urban counties; and (C) at least the following other criteria: demonstrated performance of the city or urban county in housing and community development programs; the extent to which the grant will stimulate economic recovery by leveraging private investment; the number of permanent jobs to be created and their relation to the amount of grant funds requested; the proportion of permanent jobs accessible to lower income persons and minorities, including persons who are unemployed; the impact of the proposed activities on the fiscal base of the city or urban county and its relation to the amount of grant funds requested; the extent to which State or local government funding or special economic incentives have been committed; and the feasibility of accomplishing the proposed activities in a timely fashion within the grant amount available.

"(2) For the purpose of making grants with respect to areas described in subsection (b)(2), the Secretary shall establish selection criteria, which must include (A) factors determined to be relevant by the Secretary in assessing the comparative degree of economic deterioration among eligible areas, and (B) such other criteria as the Secretary may deter-

mine, including at a minimum the criteria listed in paragraph (1)(C) of this subsection.

"(e) The Secretary may not approve any grant to a city or urban county eligible under subsection (b)(2) unless—

"(1) the grant will be used in connection with a project located in an area described in subsection (b)(2), except that the Secretary may waive this requirement where the Secretary determines (A) that there is no suitable site for the project within that area, (B) the project will be located directly adjacent to that area, and (C) the project will contribute substantially to the economic development of that area;

"(2) the city or urban county has demonstrated to the satisfaction of the Secretary that basic services supplied by the city or urban county to the area described in subsection (b)(2) are at least equivalent, as measured by per capita expenditures, to those supplied to other areas within the city or urban county which are similar in population size and physical characteristics and which have median incomes above the median income for the city or urban county;

"(3) the grant will be used in connection with a project which will directly benefit the low- and moderate-income families and individuals residing in the area described in subsection (b)(2); and

"(4) the city or urban county makes available, from its own funds or from funds received from the State or under any Federal program which permits the use of financial assistance to meet the non-Federal share requirements of Federal grant-in-aid programs, an amount equal to 20 per centum of the grant to be available under this section to be used in carrying out the activities described in the application.

"(f) Activities assisted under this section may include such activities, in addition to those authorized under section 105(a), as the Secretary determines to be consistent with the purposes of this section.

"(g) The Secretary shall, at least on an annual basis, make reviews and audits of recipients of grants under this section as necessary to determine the progress made in carrying out activities substantially in accordance with approved plans and timetables. The Secretary may adjust, reduce, or withdraw grant funds, or take other action as appropriate in accordance with the findings of these reviews and audits, except that funds already expended on eligible activities under this title shall not be recaptured or deducted from future grants made to the recipient.

"(h) No assistance may be provided under this section for projects intended to facilitate the relocation of industrial or commercial plants or facilities from one area to another,

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unless the Secretary finds that the relocation does not significantly and adversely affect the unemployment or economic base of the area from which the industrial or commercial plan or facility is to be relocated.

"(i) Not less than 25 per centum of the funds made available for grants under this section shall be used for cities with populations of less than fifty thousand persons which are not central cities of a metropolitan statistical area.

"(j) A grant may be made under this section only where the Secretary determines that there is a strong probability that (1) the non-Federal investment in the project would not be made without the grant, and (2) the grant would not substitute for non-Federal funds which are otherwise available to the project.

"(k) In making grants under this section, the Secretary shall take such steps as the Secretary deems appropriate to assure that the amount of the grant provided is the least necessary to make the project feasible.

"(l) For purposes of this section, the Secretary may reduce or waive the requirement in section 102(a)(5)(B)(ii) that a town or township be closely settled.

"(m) In the case of any application which identifies any property in accordance with subsection (c)(4)(B), the Secretary may not commit funds with respect to an approved application unless the applicant has certified to the Secretary

that the appropriate State historic preservation officer and the Secretary of the Interior have been provided an opportunity to take action in accordance with the provisions of section 121(b).

"(n)(1) For the purposes of this section, the term 'city' includes Guam, the Virgin Islands, and Indian tribes.

"(2) The Secretary may not approve a grant to an Indian tribe unless the tribe (A) is located on a reservation or in an Alaskan Native Village, and (B) is an eligible recipient under the State and Local Fiscal Assistance Act of 1972.

"(o) In the event that no amounts are set aside under, or precluded from being appropriated for this section for fiscal years after fiscal year 1983, any amount which is or becomes available for use under this section after fiscal year 1983 shall be added to amounts appropriated under section 103.".

(b) Section 121 of such Act is amended by striking out "subsection (c)(7)(B)" in subsection (b) and inserting in lieu thereof "subsection (c)(4)(B)".

(c) The amendments made by subsections (a) and (b) shall become effective on the effective date of regulations implementing such subsections. As soon as practicable, but not later than January 1, 1982, the Secretary shall issue such final rules and regulations as the Secretary determines are necessary to carry out such subsections.

REHABILITATION LOANS

SEC. 109. (a) Section 312 of the Housing Act of 1954 is amended by adding at the end thereof the following:

"(l) On or after October 1, 1981, loans may be made under this section only in connection with urban homesteading programs or multifamily properties.".

(b) Subsection (a)(1)(D) of such section is amended by striking out "approved".

(c) The first sentence of subsection (d) of such section is amended—

(1) by inserting "and" after "1979,"; and

(2) by striking out all after "1980" and inserting in lieu thereof a period.

(d) The last sentence of subsection (d) of such section is repealed.

(e) Subsection (h) of such section is amended by striking out "1982" each place it appears and inserting in lieu thereof "1983".

(f) Subsection (j)(1) of such section is amended by striking out the second sentence.

URBAN HOMESTEADING

SEC. 110. The first sentence of section 810(h) of the Housing and Community Development Act of 1974 is amended by striking out "and not to exceed $26,000,000 for the fiscal year 1979" and inserting in lieu thereof "not to

exceed $26,000,000 for the fiscal year 1979, and not to exceed $13,467,000 for the fiscal year 1983".

REPEALERS

SEC. 111. (a) Title VII of the Housing and Community Development Amendments of 1978 is hereby repealed.

(b) Section 701 of the Housing Act of 1954 is hereby repealed.

TECHNICAL AMENDMENTS

SEC. 112. (a) Section 102(a) of the Housing and Community Development Act of 1974 is amended—

(1) by striking out paragraphs (18) and (19);

(2) by inserting immediately after paragraph (6) the following:

"(7) The term 'nonentitlement area' means an area which is not a metropolitan city or part of an urban county."; and

(3) by redesignating the remaining paragraphs accordingly.

(b) Section 102(c) of such Act is amended by striking out "a Community Development Program in whole or in part" and inserting in lieu thereof "activities assisted under this title".

(c) Section 102(d) of such Act is amended by striking out "103(a)(1)" and inserting in lieu thereof "103".

(d) The caption of section 105 of such Act is amended to read as follows: "ELIGIBLE ACTIVITIES".

(e) Section 105(a) of such Act is amended—

(1) by striking out the first sentence and the words "These activities" in the second sentence and inserting in lieu thereof "Activities assisted under this title";

(2) by striking out "program" in paragraph (6);

(3) by striking out "the Community Development Program" in paragraph (9) and inserting in lieu thereof "activities assisted under this title";

(4) by striking out "to the community development program" in paragraph (11);

(5) by striking out "(as specifically" and all that follows through "104(a)(1)" in paragraph (14) and inserting in lieu thereof "which are carried out by public or private nonprofit entities"; and

(6) by striking out "(as specifically described in the application submitted pursuant to section 104)" in paragraph (15).

(f) Section 105(b) of such Act is amended by striking out "a grant" and inserting in lieu thereof "assistance".

(g) The second sentence of section 106(b)(4) of such Act is amended by striking out "for a grant under subsection (c)

or (e)" and inserting in lieu thereof the following: "to receive assistance under subsection (d)".

(h) Section 108(d)(2) of such Act is amended by striking out "approved or".

(i) The first sentence of section 110 of such Act is amended by striking out "grants" and inserting in lieu thereof "assistance".

(j) The first sentence of section 112(a) of such Act is amended by striking out "103(a)" and inserting in lieu thereof "103".

(k) Section 113(a)(2) of such Act is amended by striking out "as approved by the Secretary".

(l) Section 116(b) of such Act is amended to read as follows:

"(b) In the case of funds available for any fiscal year, the Secretary shall not consider any statement under section 104(a), unless such statement is submitted on or prior to such date (in that fiscal year) as the Secretary shall establish as the final date for submission of statements in that year.".

REPORT ON BLOCK GRANT PROGRAM

SEC. 113. Not later than one hundred and eighty days after the date of enactment of this Act, the Secretary of Housing and Urban Development shall report to the Congress on administrative and legislative steps that can be taken to—

(1) require all grantees to concentrate their block grant funds in distressed geographic areas small enough so that visible improvements can be achieved in a reasonable time period and to ensure that claimed benefits to low- and moderate-income persons are, in actuality, occurring;

(2) reduce the broad list of activities currently eligible so that funds can be focused on those activities which meet the cities' most urgent revitalization needs;

(3) develop overall income eligibility requirements for recipients of block grant supported rehabilitation; and

(4) limit eligible rehabilitation work to that which is essential to restore the housing unit to a decent, safe, and sanitary or energy efficient condition, specifically prohibiting nonessential and luxury items, so that more homes needing basic repairs can be rehabilitated.

TITLE II—HOUSING ASSISTANCE PROGRAMS

HOUSING AUTHORIZATIONS

SEC. 201. (a) The first sentence of section 5(c)(1) of the United States Housing Act of 1937 is amended by inserting immediately after "1980" the following: ", by $891,500,000 on October 1, 1981, and by $899,800,000 on October 1, 1982".

(b) The second sentence of section 5(c)(1) of such Act is amended by striking out "Acts;" and all that follows through the period and inserting in lieu thereof the following: "Acts. In addition, the aggregate amount which may be obligated over the duration of the contracts may not exceed $31,200,000,000 with respect to the additional authority provided on October 1, 1980, $17,815,100,000 with respect to the additional authority provided on October 1, 1981, and $17,810,600,000 with respect to the additional authority provided on October 1, 1982.".

(c) Section 5(c) of such Act is amended by—

(1) redesignating paragraphs (3), (4), and (5) as paragraphs (4), (5), and (6), respectively; and

(2) inserting immediately after paragraph (2) the following:

"(3)(A) Of the additional authority approved in appropriation Acts and made available on October 1, 1981, and October 1, 1982, the Secretary shall make available at least $75,000,000 each fiscal year for assistance to projects under section 14.

"(B) Of the balance of the additional authority referred to in the preceding subparagraph which remains for each fiscal year after deducting the amount to be provided for assistance to projects under section 14, the Secretary shall allocate funds for use in different areas and communities in

accordance with section 213(d) of the Housing and Community Development Act of 1974, except that on a national basis the Secretary may not enter into contracts aggregating—

"(i) more than 45 per centum of such balance for existing units assisted under this Act; and

"(ii) more than 55 per centum of such balance for newly constructed and substantially rehabilitated units assisted under this Act.

"(C) Notwithstanding subparagraph (B), after making the allocations referred to in such subparagraph, the Secretary shall accommodate the desires of States and units of local government regarding the mix between newly constructed or substantially rehabilitated and existing or moderately rehabilitated housing if the contract and budget authority allocated is sufficient to provide assistance with respect to such mix. Any contract or budget authority which remains after assistance is set aside for such mix shall be reallocated in accordance with section 213(d) of the Housing and Community Development Act of 1974. In any case where a State or unit of local government determines that funds allocated under this paragraph would be more effectively used for the modernization of existing public housing, the Secretary may approve the use of all or a part of such funds in accordance with the provisions of section 14.

"(D) The Secretary may not make reservations from the total amount of budget authority provided to carry out this Act in any fiscal year in a manner which would cause the amount reserved to exceed 30 per centum of the total amount for the last quarter of any fiscal year or 15 per centum of the total amount for any month of the last quarter of any fiscal year.".

(d) Section 9(c) of such Act is amended by—

(1) striking out "and" immediately after "on or after October 1, 1979,";

(2) striking out "$826,000,000" and inserting in lieu thereof "$970,800,000"; and

(3) inserting immediately before the period at the end thereof the following: ", not to exceed $1,204,600,000 on or after October 1, 1981, and not to exceed $1,350,400,000 on or after October 1, 1982".

(e) Section 213(d) of the Housing and Community Development Act of 1974 is amended by adding at the end thereof a new paragraph to read as follows:

"(4) With respect to fiscal years beginning after September 30, 1981, the Secretary of Housing and Urban Development is authorized to retain a portion of the contract authority available during any fiscal year under the authorities cited in paragraph (1) of subsection (a) of this section, not

to exceed 10 per centum of the available contract authority on an aggregate basis. Such contract authority shall be available for subsequent allocation to specific areas and communities, and may be used for:

"(A) unforeseeable housing needs, especially those brought on by natural disasters or special relocation requirements;

"(B) support for the needs of the handicapped or for minority enterprise;

"(C) applications for assistance with respect to housing in new communities;

"(D) providing for assisted housing as a result of the settlement of litigation;

"(E) small research and demonstration projects;

"(F) lower-income housing needs described in housing assistance plans, including activities carried out under areawide housing opportunity plans;

"(G) innovative housing programs or alternative methods for meeting lower-income housing needs approved by the Secretary.".

(f)(1) The first sentence of section 201(h) of the Housing and Community Development Amendments of 1978 is amended—

(A) by striking out "and" after "the fiscal year 1980,";

(B) by inserting before the period at the end thereof the following: ", not to exceed $50,176,000 for the fiscal year 1982, and $50,176,000 for the fiscal year 1983"; and

(C) by striking out the comma immediately following "Act" and inserting in lieu thereof a closed parenthesis.

(2) The third sentence of section 236(f)(3) of the National Housing Act, as redesignated by section 202(f)(7) of this title, is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1983".

(g) Section 305(c) of the National Housing Act is amended—

(1) by striking out "and" immediately after "October 1, 1978,"; and

(2) by inserting before the period at the end thereof the following: ", and by $2,300,000,000 on October 1, 1981, except that not more than $942,800,000 of such amount shall be available for the purchase of or commitments to purchase mortgages secured by projects which do not contain units assisted under section 8 of the United States Housing Act of 1937".

(h) Section 202(a)(4)(B)(i) of the Housing Act of 1959 is amended by striking out "and to $5,752,500,000 on October 1, 1981" and inserting in lieu thereof "to $5,752,500,000 on

October 1, 1981, and to $6,102,500,000 on October 1, 1982".

TENANT RENTAL PAYMENTS

SEC. 202. (a) Section 3 of the United States Housing Act of 1937 is amended to read as follows:

"RENTAL PAYMENTS; DEFINITIONS

"SEC. 3. (a) Dwelling units assisted under this Act shall be rented only to families who are lower income families at the time of their initial occupancy of such units. A family shall pay as rent for a dwelling unit assisted under this Act the highest of the following amounts, rounded to the nearest dollar:

"(1) 30 per centum of the family's monthly adjusted income;

"(2) 10 per centum of the family's monthly income (15 per centum for the purpose of section 8); or

"(3) if the family is receiving payments for welfare assistance from a public agency and a part of such payments, adjusted in accordance with the family's actual housing costs, is specifically designated by such agency to meet the family's housing costs, the portion of such payments which is so designated.

"(b) When used in this Act:

"(1) The term 'lower income housing' means decent, safe, and sanitary dwellings assisted under this Act. The

term 'public housing' means lower income housing, and all necessary appurtenances thereto, assisted under this Act other than under section 8. When used in reference to public housing, the term 'lower income housing project' or 'project' means (A) housing developed, acquired, or assisted by a public housing agency under this Act, and (B) the improvement of any such housing.

"(2) The term 'lower income families' means those families whose incomes do not exceed 50 per centum of the median income for the area, as determined by the Secretary with adjustments for smaller and larger families, except that the Secretary may establish income ceilings higher or lower than 50 per centum of the median for the area on the basis of the Secretary's findings that such variations are necessary because of prevailing levels of construction costs, unusually high or low family incomes, or other factors.

"(3) The term 'families' includes families consisting of a single person in the case of (A) a person who is at least sixty-two years of age or is under a disability as defined in section 223 of the Social Security Act or in section 102 of the Developmental Disabilities Services and Facilities Construction Amendments of 1970, or is handicapped, (B) a displaced person, (C) the remaining member of a tenant family, and (D) other single persons in circumstances described in regulations of the Secretary. In no event shall more than 15 per centum

of the units under the jurisdiction of any public housing agency be occupied by single persons under clause (D). In determining priority for admission to housing under this Act, the Secretary shall give preference to those single persons who are elderly, handicapped, or displaced before those eligible under clause (D). The term 'elderly families' means families whose heads (or their spouses), or whose sole members, are persons described in clause (A). A person shall be considered handicapped if such person is determined, pursuant to regulations issued by the Secretary, to have an impairment which is expected to be of long-continued and indefinite duration, substantially impedes such person's ability to live independently, and is of such a nature that such ability could be improved by more suitable housing conditions. The term 'displaced person' means a person displaced by governmental action, or a person whose dwelling has been extensively damaged or destroyed as a result of a disaster declared or otherwise formally recognized pursuant to Federal disaster relief laws. Notwithstanding the preceding provisions of this subsection, the term 'elderly families' includes two or more elderly, disabled, or handicapped individuals living together, or one or more such individuals living with one or more persons determined under regulations of the Secretary to be essential to their care or well being.

"(4) The term 'income' means income from all sources of each member of the household, as determined in accordance with criteria prescribed by the Secretary. Such term includes the amount of income which a member of the household would have received with respect to any resource (or interest therein) owned by such member within the preceding 24 months if such member gave away or sold such resource or interest at less than the fair market value of such resource or interest for the purpose of establishing eligibility for assistance under this section, as determined pursuant to regulations of the Secretary. Household income shall be determined on the basis of actual income received over a representative prior period, with appropriate provision for sudden loss of income.

"(5) The term 'adjusted income' means the income which remains after excluding such amounts or types of income as the Secretary may prescribe. In determining amounts to be excluded from income, the Secretary may, in the Secretary's discretion, take into account the number of minor children in the household and such other factors as the Secretary may determine are appropriate.

"(6) The term 'public housing agency' means any State, county, municipality, or other governmental entity or public body (or agency or instrumentality thereof) which is author-

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ized to engage in or assist in the development or operation of lower income housing.

"(7) The term 'State' includes the several States, the District of Columbia, the Commonwealth of Puerto Rico, the territories and possessions of the United States, the Trust Territory of the Pacific Islands, and Indian tribes, bands, groups, and Nations, including Alaska Indians, Aleuts, and Eskimos, of the United States.

"(8) The term 'Secretary' means the Secretary of Housing and Urban Development.

"(c) When used in reference to public housing:

"(1) The term 'development' means any or all undertakings necessary for planning, land acquisition, demolition, construction, or equipment, in connection with a lower income housing project. The term 'development cost' comprises the costs incurred by a public housing agency in such undertakings and their necessary financing (including the payment of carrying charges), and in otherwise carrying out the development of such project. Construction activity in connection with a lower income housing project may be confined to the reconstruction, remodeling, or repair of existing buildings.

"(2) The term 'operation' means any or all undertakings appropriate for management, operation, services, maintenance, security (including the cost of security personnel), or financing in connection with a lower income housing project.

The term also means the financing of tenant programs and services for families residing in lower income housing projects, particularly where there is maximum feasible participation of the tenants in the development and operation of such tenant programs and services. As used in this paragraph, the term 'tenant programs and services' includes the development and maintenance of tenant organizations which participate in the management of lower income housing projects; the training of tenants to manage and operate such projects and the utilization of their services in project management and operation; counseling on household management, housekeeping, budgeting, money management, child care, and similar matters; advice as to resources for job training and placement, education, welfare, health, and other community services; services which are directly related to meeting tenant needs and providing a wholesome living environment; and referral to appropriate agencies in the community when necessary for the provision of such services. To the maximum extent available and appropriate, existing public and private agencies in the community shall be used for the provision of such services.

"(3) The term 'acquisition cost' means the amount prudently required to be expended by a public housing agency in acquiring property for a lower income housing project.".

(b) Sections 4, 5, 9, and 11 of such Act are amended by striking out "LOW INCOME" where it appears in the caption accompanying each such section and by inserting in lieu thereof "LOWER INCOME".

(c) Sections 2, 4, 5, 6, 9, 11, 12, 13, and 14 of such Act are amended by striking out "low-income" wherever it appears and inserting in lieu thereof "lower income".

(d) Section 6(c)(2) of such Act is amended by striking out the phrase "at intervals of two years (or at shorter intervals where the Secretary deems it desirable)" and inserting in lieu thereof "no less frequently than annually".

(e) Section 8 of such Act is amended—

(1) by striking out paragraph (3) of subsection (c) and inserting in lieu thereof the following:

"(3) The amount of the monthly assistance payment with respect to any dwelling unit shall be the difference between the maximum monthly rent which the contract provides that the owner is to receive for the unit and the rent the family is required to pay under section 3(a) of this Act. Reviews of family income shall be made no less frequently than annually.";

(2) by striking out paragraph (7) of subsection (c) and redesignating paragraph (8) of such subsection as paragraph (7);

(3) by striking out paragraphs (1), (2), and (3) of subsection (f) and redesignating paragraphs (4), (5), and (6) of such subsection as paragraphs (1), (2), and (3), respectively;

(4) by striking out "The provisions of section 3(1), 5(e), and 6" in subsection (h) and inserting in lieu thereof "Sections 5(e) and 6";

(5) by striking out the comma after the word "Act" in subsection (h); and

(6) by striking out "25 per centum of one-twelfth of the annual income of such family" in paragraph (3) of subsection (j) and inserting in lieu thereof "the rent the family is required to pay under section 3(a) of this Act".

(f) Section 236 of the National Housing Act is amended—

(1) by striking out "two years" in subsection (e) and inserting in lieu thereof "one year";

(2) by striking out "25 per centum of the tenant's income" in the second sentence of subsection (f) and inserting in lieu thereof "30 per centum of the tenant's adjusted income";

(3) by striking out clause (ii) in the third sentence of subsection (f) and inserting in lieu thereof the following:

"(ii) to permit the charging of a rental for such dwelling units at such an amount less than 30 per centum of a tenant's adjusted income as the Secretary determines represents a proportionate decrease for the utility charges to be paid by such tenant, but in no case shall such rental be lower than 25 per centum of a tenant's adjusted income.";

(4) by striking out "25 per centum of their income" in paragraph (2) of subsection (f) and inserting in lieu thereof "30 per centum of their adjusted income";

(5) by striking out "25 per centum of the tenant's income" in paragraph (2) of subsection (f) and inserting in lieu thereof "the highest of the following amounts, rounded to the nearest dollar:

"(A) 30 per centum of the tenant's monthly adjusted income;

"(B) 10 per centum of the tenant's monthly income; or

"(C) if the family is receiving payments for welfare assistance from a public agency and a part of such payments, adjusted in accordance with the family's actual housing costs, is specifically designated by such agency to meet the fam-

ily's housing costs, the portion of such payments which is so designated";

(6) by striking out the third sentence in paragraph (2) of subsection (f);

(7) by striking out subparagraph (A) of subsection (f)(3) and redesignating subsection (f)(3)(B) as subsection (f)(3); and

(8) by striking out subsection (m) and inserting in lieu thereof the following:

"(m) For the purpose of this section the term 'income' means income from all sources of each member of the household, as determined in accordance with criteria prescribed by the Secretary. Such term includes the amount of income which a member of the household would hav received with respect to any resource (or interest therein) owned by such member within the preceding twenty-four months if such member gave away or sold such resource or interest at less than the fair market value of such resource or interest for the purpose of establishing eligibility for assistance under this section, as determined pursuant to regulations of the Secretary. The term 'adjusted income' means the income which remains after excluding such amounts or types of income as the Secretary may prescribe. In determining amounts to be excluded from income, the Secretary may, in the Secretary's discretion, take into account the number of minor children in

the household and such other factors as the Secretary may determine are appropriate. Household income shall be determined on the basis of actual income received over a representative prior period, with appropriate provision for sudden loss of income.".

(g) Section 101 of the Housing and Urban Development Act of 1965 is amended—

(1) by striking out paragraph (2) in subsection (c) and inserting in lieu thereof the following:

"(2) 'income' means income from all sources of each member of the household, as determined in accordance with criteria prescribed by the Secretary. Such term includes the amount of income which a member of the household would have received with respect to any resource (or interest therein) owned by such member within the preceding twenty-four months if such member gave away or sold such resource or interest at less than the fair market value of such resource or interest for the purpose of establishing eligibility for assistance under this section, as determined pursuant to regulations of the Secretary. The term 'adjusted income' means the income which remains after excluding such amounts or types of income as the Secretary may prescribe. In determining amounts to be excluded from income, the Secretary may, in the Sec-

retary's discretion, take into account the number of minor children in the household and such other factors as the Secretary may determine are appropriate. Household income shall be determined on the basis of actual income received over a representative prior period, with appropriate provision for sudden loss of income.";

(2) by striking out the first sentence of subsection (d) and inserting in lieu thereof the following: "The amount of the annual payment with respect to any dwelling unit shall be the lesser of (1) 70 per centum of the fair market rent, or (2) the amount by which the fair market rental for such unit exceeds 30 per centum of the tenant's adjusted income."; and

(3) by striking out ", except the elderly, at intervals of two years (or at shorter intervals in cases where the Secretary may deem it desirable)" in paragraph (2) of subsection (e), and by inserting in lieu thereof "no less frequently than annually".

(h) Title II of the Housing and Community Development Amendments of 1979 is amended—

(1) by striking out subsection (c) in section 202; and

(2) by striking out subsection (c) in section 203.

(i)(1) In determining the rent to be paid by tenants who are occupying housing assisted under the authorities amended by this section on the effective date of this Act, the Secretary, notwithstanding any other provision of this section, may provide for delayed applicability, or for staged implementation, of the procedures for determining rent required by the provisions of subsections (a) through (h) of this section if the Secretary determines that immediate application of such procedures would be impracticable, would violate the terms of existing leases, or would result in extraordinary hardship for any class of tenants. The Secretary shall prohibit any increase in rents required by the amendments made by this section (other than any part of those increases attributed to increases in family income) in excess of 10 per centum for a family during any twelve-month period. Notwithstanding any other provision of this section, application of the procedures for determining rent contained in this section shall not result in a reduction in the amount of rent paid by any tenant below the amount paid by such tenant immediately preceding the effective date of this Act.

(2) Tenants of housing assisted under the provisions of law amended by this section whose occupancy begins after the effective date of this Act shall be subject to immediate rent payment determinations in accordance with the amendments contained in subsections (a) through (h), except that

the Secretary may provide for delayed applicability, or for staged implementation, of these requirements for such tenants if the Secretary determines that immediate application of the requirements of this section would be impracticable, or that uniform procedures for assessing rents would significantly decrease administrative costs and burdens.

(3) The Secretary's actions and determinations and the procedures for making determinations pursuant to this subsection shall not be reviewable in any court. The provisions of subsections (a) through (h) shall be implemented and fully applicable to all affected tenants no later than five years following the date of enactment of this Act, except that the Secretary may extend the time for implementation if the Secretary determines that full implementation would result in extraordinary hardship for any class of tenants.

COST REDUCTION IN ASSISTED HOUSING

SEC. 203. (a) Section 8 of the United States Housing Act of 1937 is amended—

(1) by inserting after the first sentence of subsection (b)(2) the following: "To increase housing opportunities for very low-income families, the Secretary shall assure that newly constructed housing to be assisted under this section is modest in design and shall reduce the types and number of unnecessary amenities and features.";

(2) by adding at the end of subsection (c)(2) the following:

"(D) Notwithstanding the foregoing, the Secretary shall limit increases in contract rents for newly constructed or substantially rehabilitated projects assisted under this section to the amount of operating cost increases incurred by owners of comparable projects in the area.";

(3) in subsection (c)(4)—

(A) by striking out all after "exceeding" in the first sentence and inserting in lieu thereof "thirty days."; and

(B) by striking out "sixty-day" in the second sentence and inserting in lieu thereof "thirty-day"; and

(4) by adding at the end thereof the following:

"(m) The Secretary shall give a weighted average consideration of 33⅓ per centum for cost considerations when reviewing proposals for assistance under this section.

"(n) For the purpose of achieving the lowest cost in providing units in newly constructed projects assisted under this section, the Secretary shall give a priority in entering into contracts under this section for projects which are to be located on specific tracts of land provided by States or units of local government if the Secretary determines that the tract

of land is suitable for such housing, and that affording such priority will be cost effective.

"(o) The Secretary shall not enter into any contract with respect to a newly constructed project under this section if the sizes of the units in such project exceed (1) the sizes specified in the minimum property standards by more than 10 per centum or the sizes specified by other applicable Federal standards, or (2) the sizes specified in the applicable local codes, whichever are greater.".

(b)(1) The Secretary of Housing and Urban Development may not deny or withhold Federal housing assistance with respect to any property in which some or all of the dwelling units do not contain bathroom or kitchen facilities because of the lack of such facilities.

(2) In the case of newly constructed or substantially rehabilitated projects for occupancy by elderly or handicapped persons or families with respect to which Federal housing assistance is provided pursuant to contracts entered into on or after October 1, 1981, to the maximum extent practicable, the Secretary of Housing and Urban Development shall, on a nationwide basis, assure that not less than 25 per centum of the units are efficiency units.

(3) As used in this subsection, the term "Federal housing assistance" means assistance under any program pursuant to the United States Housing Act of 1937, the National

Housing Act, section 101 of the Housing and Urban Development Act of 1965, section 202 of the Housing Act of 1959, title V of the Housing Act of 1949, or title I of the Housing and Community Development Act of 1974.

REDIRECTION OF ECONOMIC MIX POLICY

SEC. 204. (a) The Secretary of Housing and Urban Development shall rescind 24 C.F.R. 880.603(c).

(b) Section 8 of the United States Housing Act of 1937 is amended—

(1) by inserting "only where consistent with the purpose of aiding lower income families in obtaining a decent place to live" after "mixed housing" in subsection (a);

(2) by adding at the end of subsection (b)(2) the following: "Each contract entered into under this section after the date of enactment of the Housing and Community Development Amendments of 1981 shall provide that a family which is not eligible for assistance under this section at the time of its initial occupancy may rent a unit in a newly constructed or substantially rehabilitated project assisted under this section only if the number of units in the project which are occupied by families eligible for assistance under this section equals or exceeds the number of units in the project which were to be available for occupancy at

initial rent-up by families eligible for assistance under this section."; and

(3) by inserting after "nonhandicapped persons" in the second sentence of subsection (c)(5) the following: "which are not subject to mortgages purchased under section 305 of the National Housing Act and not financed with the proceeds of obligations the interest on which is exempt from taxation under chapter 1 of the Internal Revenue Code of 1954".

(c) Section 6(c)(4)(A) of such Act is amended by striking out "will include families with a broad range of incomes and" and by striking out "lower income and".

MISCELLANEOUS HOUSING ASSISTANCE AMENDMENTS

SEC. 205. (a) Section 8 of the United States Housing Act of 1937 is amended—

(1) by adding at the end thereof the following:

"(p) After the date of enactment of this subsection, the Secretary may not enter into any contract for a newly constructed or substantially rehabilitated project pursuant to this section which is to be located within the jurisdiction of a State or unit of local government which applies rent controls or rent stabilization to some or all newly constructed multifamily residential projects or to units in any multifamily residential project which become vacant."; and

(2) by adding at the end of subsection (c) the following:

"(8) Each contract under this section shall provide that the owner will notify tenants at least six months prior to any rent increase which may occur after the expiration of such contract.".

(b)(1) Within one year after the date of enactment of this Act, the Secretary of Housing and Urban Development shall conduct a survey to determine the number of projects which are assisted under section 8 of the United States Housing Act of 1937 owned by developers or sponsors with five-year annual contributions contracts who plan to withdraw from the section 8 program when their contracts expire and who will increase rents in those projects to levels that the current residents of those projects will not be able to afford. The Secretary shall notify affected residents of possible rent increases where applicable.

(2) Not later than one year after the date of the enactment of this Act, the Secretary shall transmit to the Congress a report recommending methods for recapturing the cost to the Federal Government of front-end investment in those units which are removed from the section 8 program.

(c) Section 8 of the United States Housing Act of 1937 is amended by adding at the end thereof the following:

"(q) The Secretary shall assure that no Federal, State, or local official financially profits by participating in the development of housing to be assisted under this section.".

(d)(1) The Secretary of Housing and Urban Development shall permit public housing agencies to retain, out of judgments obtained by them in recovering amounts wrongfully paid as a result of fraud and abuse in the housing assistance program under section 8 of the United States Housing Act of 1937, an amount equal to the greater of (A) the legal expenses incurred in obtaining such judgments, or (B) 50 per centum of the amount actually collected on the judgments.

(2) The Secretary of Housing and Urban Development shall include in the annual report under section 8 of the Department of Housing and Urban Development Act a summary of cases brought to its attention by public housing authorities for prosecution or civil action, and shall describe the handling of such cases by such authorities and by the Department of Housing and Urban Development and the resolution of such cases in the court system.

(e) Section 8(d)(1) of the United States Housing Act of 1937 is amended by striking out clause (B) and inserting in lieu thereof:

"(B) the procedural and substantive rights of the tenant with respect to occupancy of the unit shall be

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determined by the terms of the lease and applicable State and local law;".

RENT SUPPLEMENTS

SEC. 206. (a) Section 101(l) of the Housing and Urban Development Act of 1965 is amended to read as follows:

"(l) Notwithstanding the provisions of subsection (a) and any other provision of law, the Secretary may utilize additional authority under section 5(c) of the United States Housing Act of 1937 made available by appropriation Acts on or after October 1, 1979, to supplement assistance authority available for that purpose under this section.".

(b) The second sentence of section 101(d) of such Act is repealed.

DISPOSAL OF HUD-OWNED PROJECTS

SEC. 207. Section 203(a) of the Housing and Community Development Amendments of 1978 is amended by adding at the end thereof the following: "To the maximum extent feasible, the Secretary shall seek to dispose of projects owned by the Secretary to tenant-owned cooperatives.".

SECTION 235 AMENDMENTS

SEC. 208. (a) Section 235(c)(2)(A) of the National Housing Act is amended by striking out "ceases for a period of 90 continuous days or more making payments required under the mortgage, loan, or advance of credit secured by such a property, or".

(b) Section 235(h)(1) of such Act is amended by adding the following new sentence at the end thereof: "The Secretary shall not enter into new contracts for assistance payments under this section after September 30, 1981, except pursuant to a commitment issued on or before September 30, 1981.".

(c) Section 235(q)(14) of such Act is amended by striking out "ceases for a period of 90 continuous days or more making payments on the mortgage, loan, or advance of credit secured by the property, or".

RESTRICTION ON USE OF ASSISTED HOUSING

SEC. 209. (a) Section 214 of the Housing and Community Development Act of 1980 is amended to read as follows:

"RESTRICTION ON USE OF ASSISTED HOUSING

"SEC. 214. (a) Notwithstanding any other provision of law, the Secretary of Housing and Urban Development may not make financial assistance available for the benefit of any alien unless he or she is a resident of the United States and is—

"(1) an alien lawfully admitted for permanent residence as an immigrant as defined by sections 101(a)(15) and 101(a)(20) of the Immigration and Nationality Act (8 U.S.C. 1101(a)(15) and 8 U.S.C. 1101(a)(20)), excluding, among others, alien visitors, tourists, diplomats, and students who enter the United

States temporarily with no intention of abandoning their residence in a foreign country;

"(2) an alien who entered the United States prior to June 30, 1948, or such subsequent date as is enacted by law, has continuously maintained his or her residence in the United States since then, and is not ineligible for citizenship, but who is deemed to be lawfully admitted for permanent residence as a result of an exercise of discretion by the Attorney General pursuant to section 249 of the Immigration and Nationality Act (8 U.S.C. 1259);

"(3) an alien who is lawfully present in the United States pursuant to an admission under section 207 of the Immigration and Nationality Act (8 U.S.C. 1157) or pursuant to the granting of asylum (which has not been terminated) under section 208 of such Act (8 U.S.C. 1158);

"(4) an alien who is lawfully present in the United States as a result of an exercise of discretion by the Attorney General for emergent reasons or reasons deemed strictly in the public interest pursuant to section 212(d)(5) of the Immigration and Nationality Act (8 U.S.C. 1182(d)(5)); or

"(5) an alien who is lawfully present in the United States as a result of the Attorney General's

withholding deportation pursuant to section 243(h) of the Immigration and Nationality Act (8 U.S.C. 1253(h)).

"(b) For purposes of this section the term 'financial assistance' means financial assistance made available pursuant to the United States Housing Act of 1937, section 235 or 236 of the National Housing Act, or section 101 of the Housing and Urban Development Act of 1965.".

(b) An alien who is lawfully present in the United States as a result of being granted conditional entry pursuant to section 203(a)(7) of the Immigration and Nationalilty Act (8 U.S.C. 1153(a)(7)) before April 1, 1980, because of persecution or fear of persecution on account of race, religion, or political opinion or because of being uprooted by catastrophic natural calamity shall be deemed, for purposes of section 214 of the Housing and Community Development Act of 1980, to be an alien described in section 214(a)(3) of such Act.

PAYMENT FOR DEVELOPMENT MANAGERS

SEC. 210. The Secretary of Housing and Urban Development shall develop and implement a revised fee schedule for development managers of lower income housing projects assisted under the United States Housing Act of 1937 so that the percentage limitation applicable to fees chargeable in connection with smaller projects is increased to a minimum level which is practicable.

REVIEW OF OPERATING SUBSIDY FORMULA; FEASIBILITY STUDY

SEC. 211. (a) The Secretary of Housing and Urban Development shall review the administration of the operating subsidy program under section 9 of the United States Housing Act of 1937 and, not later than March 1, 1982, shall report to the Congress recommendations for one or more new operating subsidy formulas which contain incentives to achieve good management, full rent collection, and improved maintenance of projects developed under the United States Housing Act of 1937.

(b) The Secretary of Housing and Urban Development shall examine the feasibility of having the Department of Housing and Urban Development design and implement a computer system which can be utilized by public housing agencies to comply with the Department of Housing and Urban Development's reporting requirements, and report thereon to the Congress not later than March 1, 1982.

ENERGY EFFICIENCY EFFORTS

SEC. 212. Section 201 of the Housing and Community Development Amendments of 1978 is amended—

(1) by redesignating subsection (h) as subsection (i); and

(2) by inserting after subsection (g) the following:

"(h)(1) Notwithstanding any other provision of law, in exercising any authority relating to the approval or disapproval of rentals charged tenants residing in projects which are eligible for assistance under this section, the Secretary—

"(A) shall consider whether the mortgagor could control increases in utility costs by securing more favorable utility rates, by undertaking energy conservation measures which are financially feasible and cost effective, or by taking other financially feasible and cost-effective actions to increase energy efficiency or to reduce energy consumption; and

"(B) may, in his discretion, adjust the amount of a proposed rental increase where he finds the mortgagor could exercise such control.

"(2) The Secretary may waive one or more of the requirements of this section and may provide financial assistance to an owner of a project which is eligible for assistance under this section in order to assist the owner in carrying out a plan to upgrade the project to meet cost-effective energy efficiency standards prescribed by the Secretary.".

RECOGNITION OF KANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT

SEC. 213. The Secretary of Housing and Urban Development shall permit the Kansas Department of Economic Development to participate as a public housing agency for

the purposes of programs carried out under the United States Housing Act of 1937 and as a State agency for the purpose of section 883.203 of title 24 of the Code of Federal Regulations as in effect June 1, 1981.

TITLE III—PROGRAM AMENDMENTS AND EXTENSIONS

EXTENSION OF FEDERAL HOUSING ADMINISTRATION MORTGAGE INSURANCE PROGRAMS

SEC. 301. (a) Section 2(a) of the National Housing Act is amended by striking out "October 1, 1981" in the first sentence and inserting in lieu thereof "October 1, 1983".

(b) Section 217 of such Act is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1983".

(c) Section 221(f) of such Act is amended by striking out "September 30, 1981" in the fifth sentence and inserting in lieu thereof "September 30, 1983".

(d) Section 235(m) of such Act is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1982".

(e) Section 236(n) of such Act is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1982".

(f) Section 244(d) of such Act is amended by—

(1) striking out "September 30, 1981" in the first sentence and inserting in lieu thereof "September 30, 1983"; and

(2) striking out "October 1, 1981" in the second sentence and inserting in lieu thereof "October 1, 1983".

(g) Section 245(a) of such Act is amended by striking out "September 30, 1981" where it appears and inserting in lieu thereof "September 30, 1983".

(h) Section 809(f) of such Act is amended by striking out "September 30, 1981" in the second sentence and inserting in lieu thereof "September 30, 1983".

(i) Section 810(k) of such Act is amended by striking out "September 30, 1981" in the second sentence and inserting in lieu thereof "September 30, 1983".

(j) Section 1002(a) of such Act is amended by striking out "September 30, 1981" in the second sentence and inserting in lieu thereof "September 30, 1983".

(k) Section 1101(a) of such Act is amended by striking out "September 30, 1981" in the second sentence and inserting in lieu thereof "September 30, 1983".

EXTENSION OF FLEXIBLE INTEREST RATE AUTHORITY

SEC. 302. Section 3(a)(1) of Public Law 90–301 is amended by striking out "October 1, 1981" and inserting in lieu thereof "October 1, 1983".

RESEARCH AUTHORIZATIONS

SEC. 303. The second sentence of section 501 of the Housing and Urban Development Act of 1970 is amended by striking out "and not to exceed $51,000,000 for the fiscal year 1981" and inserting in lieu thereof "not to exceed $51,000,000 for the fiscal year 1981, not to exceed $35,000,000 for the fiscal year 1982, and not to exceed $35,000,000 for the fiscal year 1983".

FEDERAL HOUSING ADMINISTRATION GENERAL INSURANCE FUND

SEC. 304. Section 519(f) of the National Housing Act is amended by striking out "$1,738,000,000" and inserting in lieu thereof "$1,864,637,000".

PROPERTY IMPROVEMENT AND MANUFACTURED HOME LOANS

SEC. 305. Section 2(b) of the National Housing Act is amended to read as follows:

"(b)(1) No insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit, or purchase by it if the amount of such loan, advance of credit or purchase exceeds—

"(A) $17,500 ($20,000 where financing the installation of a solar energy system is involved) if made for the purpose of financing alterations, repairs and im-

provements upon or in connection with existing single-family structures or manufactured homes;

"(B) $43,750 or an average amount of $8,750 per family unit ($50,000 and $10,000, respectively, where financing the installation of a solar energy system is involved) if made for the purpose of financing the alteration, repair, improvement, or conversion of an existing structure used or to be used as an apartment house or a dwelling for two or more families;

"(C) $22,500 ($35,000 in the case of a manufactured home composed of two or more modules) if made for the purpose of financing the purchase of a manufactured home;

"(D) $35,000 ($47,500 in the case of a manufactured home composed of two or more modules) if made for the purpose of financing the purchase of a manufactured home and a suitably developed lot on which to place the home;

"(E) such an amount as may be necessary, but not exceeding $12,500, if made for the purpose of financing the purchase, by an owner of a manufactured home which is the principal residence of that owner, of a suitably developed lot on which to place that manufactured home, and if the owner certifies that he or she will place the manufactured home on the lot acquired

with such loan within six months after the date of such loan;

"(F) $60,000 or an average amount of $20,000 per family unit if made for the purpose of financing the preservation of an historic structure; and

"(G) such principal amount as the Secretary may prescribe if made for the purpose of financing fire safety equipment for a nursing home, extended health care facility, intermediate health care facility, or other comparable health care facility.

"(2) Because of prevailing higher costs, the Secretary may, by regulation, in Alaska, Guam, or Hawaii, increase any dollar amount limitation on manufactured homes or manufactured home lot loans contained in this subsection by not to exceed 40 per centum. In other areas where needed to meet higher costs of land acquisition, site development, and construction of a permanent foundation in connection with the purchase of a manufactured home or lot, the Secretary may, by regulation, increase any dollar amount limitation otherwise applicable by an additional $7,500.

"(3) No insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit or purchase by it if the term to maturity of such loan, advance of credit or purchase exceeds—

"(A) fifteen years and thirty-two days if made for the purpose of financing alterations, repairs and improvements upon or in connection with an existing single-family structure or manufactured home, except that such limitation may be extended to twenty years and thirty-two days where financing the installation of a solar energy system is involved;

"(B) twenty years and thirty-two days if made for the purpose of financing the alteration, repair, improvement or conversion of an existing structure used or to be used as an apartment house or a dwelling for two or more families, except that such limitation may be increased to twenty-five years and thirty-two days where financing the installation of a solar energy system is involved;

"(C) twenty years and thirty-two days (twenty-three years and thirty-two days in the case of a manufactured home composed of two or more modules) if made for the purpose of financing the purchase of a manufactured home;

"(D) twenty years and thirty-two days (twenty-five years and thirty-two days in the case of a manufactured home composed of two or more modules) if made for the purpose of financing the purchase of a

manufactured home and a suitably developed lot on which to place the home;

"(E) fifteen years and thirty-two days if made for the purpose of financing the purchase, by the owner of a manufactured home which is the principal residence of that owner, of a suitably developed lot on which to place that manufactured home;

"(F) twenty-five years and thirty-two days if made for the purpose of financing the preservation of an historic structure;

"(G) such term to maturity as the Secretary may prescribe if made for the purpose of financing the construction of a new structure for use in whole or in part for agricultural purposes; and

"(H) such term to maturity as the Secretary may prescribe if made for the purpose of financing fire safety equipment for a nursing home, extended health care facility, intermediate health care facility, or other comparable health care facility.

"(4) For the purpose of this subsection—

"(A) the term 'developed lot' includes an interest in a condominium project (including any interest in the common areas) or a share in a cooperative association; and

"(B) a loan to finance the purchase of a manufactured home or a manufactured home and lot may also finance the purchase of a garage, patio, carport, or other comparable appurtenance.

"(5) No insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit, or purchase by it unless the obligation bears such interest, has such maturity, and contains such other terms, conditions, and restrictions as the Secretary shall prescribe, in order to make credit available for the purpose of this title. Any such obligation with respect to which insurance is granted under this section shall bear interest and insurance premium charges not exceeding (A) an amount, with respect to so much of the net proceeds thereof as does not exceed $2,500, equivalent to $5.50 discount per $100 of original face amount of a one-year note payable in equal monthly installments, plus (B) an amount, with respect to any portion of the net proceeds thereof in excess of $2,500, equivalent to $4.50 discount per $100 of original face amount of such note. The amounts referred to in clauses (A) and (B) of the preceding sentence, when correctly based on tables of calculations issued by the Secretary or adjusted to eliminate minor errors in computation in accordance with requirements of the Secretary, shall be deemed to comply with such sentence.

"(6)(A) Any obligation with respect to which insurance is granted under this section may be refinanced and extended in accordance with such terms and conditions as the Secretary may prescribe, but in no event for an additional amount or term in excess of any applicable maximum provided for in this subsection.

"(B) The owner of a manufactured home lot purchased without assistance under this section but otherwise meeting the requirements of this section may refinance such lot under this section in connection with the purchase of a manufactured home if the borrower certifies that the home and lot is or will be his or her principal residence within six months after the date of the loan.".

INCREASE IN MAXIMUM LOAN LIMIT FOR MANUFACTURED HOME PARKS; MANUFACTURED HOME CONDOMINIUMS

SEC. 306. (a) Section 207(c)(3) of the National Housing Act is amended by striking out "$8,000" and inserting in lieu thereof "$9,000".

(b) Section 234(a) of such Act is amended by inserting "or a manufactured home or manufactured home and lot" after "one-family unit".

HOMEOWNER COUNSELING

SEC. 307. Section 106(a)(1)(iii) of the Housing and Urban Development Act of 1968 is amended to read as follows:

"(iii) default and delinquency counseling and advice to homeowners with respect to property maintenance, financial management, and such other matters as may be appropriate to assist them in improving their housing conditions and in meeting the responsibilities of homeownership;".

TECHNICAL AMENDMENTS

SEC. 308. (a) The last sentence of section 207(c)(3), section 213(p), the last proviso in section 220(d)(3)(B)(iii), section 221(k), the proviso in section 231(c)(2), and section 234(j) of such Act are amended—

(1) by inserting "therein" immediately after "installation" wherever it appears; and

(2) by striking out "therein" before the punctuation at the end thereof.

(b) Section 223(f) of such Act is amended—

(1) by inserting "and" immediately after the semicolon at the end of paragraph (2)(A); and

(2) by redesignating paragraph (5) as paragraph (4).

(c) For purposes of paragraphs (1) and (4) of section 308(c) of the Housing and Community Development Act of 1980, the term "mobile home" and the term "manufactured home" shall be deemed to include the term "mobile homes" and the term "manufactured homes", respectively.

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(d)(1) The material preceding the proviso in clause (2) of the first sentence of section 234(c) of the National Housing Act is amended to read as follows: "(2) the project is or has been covered by a mortgage insured under any section (except section 213(a) (1) and (2)) of this Act or the project was approved for a guarantee, insurance, or a direct loan under chapter 37 of title 38, United States Code, notwithstanding any requirements in any such section that the project be constructed or rehabilitated for the purpose of providing rental housing:".

(2) Section 318 of the Housing and Community Development Act of 1980 is repealed.

FLOOD INSURANCE

SEC. 309. (a) Section 1319 of the National Flood Insurance Act of 1968 is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1983".

(b) Section 1336(a) of such Act is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1983".

(c) Section 1376(c) of such Act is amended by striking out "and" after "1980," and by inserting after "1981" the following: ", not to exceed $51,000,000 for the fiscal year 1982, and not to exceed $51,000,000 for the fiscal year 1983".

(d)(1) Section 1302(g) of such Act is repealed.

(2) Section 1370(c) of such Act is repealed.

(e) The amendments made by this section do not affect any obligations arising out of contracts entered into on or before the date of enactment of this Act.

RIOT AND CRIME INSURANCE

SEC. 310. (a) Section 1201 of the National Housing Act is amended—

(1) by striking out "C," in subsection (b)(1);

(2) by striking out "September 30, 1981" in subsection (b)(1) and inserting in lieu thereof "September 30, 1982"; and

(3) by striking out "and 1231(c) until September 30, 1984" in subsection (b)(1)(A) and inserting in lieu thereof "until September 30, 1982".

(b) Part C of title XII of such Act is repealed.

(c) The amendments made by this section do not affect any obligations arising out of contracts entered into on or before the date of enactment of this Act.

NEIGHBORHOOD REINVESTMENT CORPORATION

SEC. 311. Section 608(a) of the Housing and Community Development Amendments of 1978 is amended by striking out "and not to exceed $13,426,000 for fiscal year 1981" and inserting in lieu thereof "not to exceed $13,426,000 for fiscal year 1981, not to exceed $14,950,000 for fiscal year 1982, and not to exceed $14,950,000 for fiscal year 1983".

NATIONAL INSTITUTE OF BUILDING SCIENCES

SEC. 312. (a) Section 809(c)(4) of the Housing and Community Development Act of 1974 is amended by adding at the end thereof the following: "Notwithstanding any such rules and procedures as may be adopted by the Institute, the President of the United States shall appoint, by and with the advice and consent of the Senate, two of the members of the Board of Directors selected each year for terms commencing in that year, as representative of the public interest.".

(b) Section 809(h) of such Act is amended by striking out "1982" and inserting in lieu thereof "1987".

MODEL ZONING CODE

SEC. 313. The Secretary of Housing and Urban Development is authorized and directed to develop a model manufactured housing zoning code for use by appropriate local authorities.

LOWER COST TECHNOLOGY

SEC. 314. The Secretary of Housing and Urban Development is authorized to develop and implement a demonstration program utilizing lower cost building technology for projects located on innercity vacant land.

COMPILATION OF BASIC LAWS

SEC. 315. Not later than ninety days after the date of enactment of this Act, the Secretary of Housing and Urban Development shall publish a full and complete edition of the

basic laws and authorities relating to housing and community development reflecting changes and additions occasioned by this Act. Such publication shall carry annotations reflecting periodic changes to basic laws and a description of provisions which are replaced or amended. The Secretary of Housing and Urban Development shall forward copies of such publication to the Chairman of the Committee on Banking, Housing, and Urban Affairs of the Senate and the Chairman of the Committee on Banking, Finance and Urban Affairs of the House of Representatives. A revised edition of such basic laws and authorities shall be published not later than ninety days after the enactment of any subsequent housing and community development authorizing legislation.

USURY PROVISION

SEC. 316. Section 501(a)(1)(C)(vi) of the Depository Institutions Deregulation and Monetary Control Act of 1980 is amended by inserting "or residential manufactured home" after "residential real property".

NATIONAL CONSUMER COOPERATIVE BANK

SEC. 317. (a) Section 108 of the National Consumer Cooperative Bank Act is amended by adding at the end thereof the following:

"(f)(1) Effective on and after the date of enactment of the Housing and Community Development Amendments of 1981—

"(A) the Bank may not make any new commitment for a loan or guarantee; and

"(B) the Bank may not issue any obligations pursuant to section 107.

"(2) All amounts received by the Bank as repayments of principal and payments of interest or other charges or fees in connection with loans or guarantees shall be paid into the Treasury of the United States as miscellaneous receipts not later than thirty days after receipt by the Bank, except that the Bank may pay out of such amounts its operating expenses in an amount each year not to exceed that amount determined by the Comptroller General of the United States to be necessary for that year, but the total amount of such expenses shall not exceed the cost which would have been incurred if the Bank were terminated during fiscal year 1981 and its functions transferred to the Secretary of the Treasury.".

(b) Section 105(a)(5) of such Act is amended to read as follows:

"(5) in the case of a primary cooperative organization—

"(A) restricts its voting control to members or voting stockholders on a one vote per person basis, except that this requirement shall not apply to any housing cooperative existing on March 21,

1980, which did not meet such requirement on that date; and

"(B) takes positive steps to insure economic democracy and maximum participation by members of the cooperative including the holding of annual meetings and, in the case of organizations owned by groups of cooperatives, provides positive protections to insure economic democracy;".

RECISION OF 1981 AUTHORITY

SEC. 318. Notwithstanding any other provision of law, the Secretary of Housing and Urban Development may not obligate or expend $5,552,000,000 of budget authority provided for fiscal year 1981.

MORTGAGE INSURANCE FOR HOSPITALS

SEC. 319. Section 242(d)(5) of the National Housing Act is amended by adding the following paragraph at the end thereof:

Provided, however, That the foregoing shall not limit the ability of the Secretary to approve a mortgage increase for any changes by the Secretary on any mortgage eligible for insurance under this subpart for which an application for increase had been made within two years of enactment".

TITLE IV—MULTIFAMILY MORTGAGE FORECLOSURE

SHORT TITLE

SEC. 401. This title may be cited as the "Multifamily Mortgage Foreclosure Act of 1981".

FINDINGS AND PURPOSE

SEC. 402. (a) The Congress finds that—

(1) disparate State laws under which the Secretary of Housing and Urban Development forecloses real estate mortgages which the Secretary holds pursuant to title II of the National Housing Act or section 312 of the Housing Act of 1964 covering multiunit residential and nonresidential properties burden the programs administered by the Secretary pursuant to these authorities, and cause detriment to the residents of the affected projects and the community generally;

(2) long periods to complete the foreclosure of these mortgages under certain State laws lead to deterioration in the condition of the properties involved; necessitate substantial Federal management and holding expenditures; increase the risk of vandalism, fire loss, depreciation, damage, and waste with respect to the properties; and adversely affect the residents of the projects and the neighborhoods in which the properties are located;

(3) these conditions seriously impair the Secretary's ability to protect the Federal financial interest in the affected properties and frustrate attainment of the objectives of the underlying Federal program authorities, as well as the national housing goal of "a decent home and a suitable living environment for every American family";

(4) application of State redemption periods to these mortgages following their foreclosure would impair the salability of the properties involved and discourage their rehabilitation and improvement, thereby compounding the problems referred to in clause (3);

(5) the availability of a uniform and more expeditious procedure for the foreclosure of these mortgages by the Secretary and continuation of the practice of not applying postsale redemption periods to such mortgages will tend to ameliorate these conditions; and

(6) providing the Secretary with a nonjudicial foreclosure procedure will reduce unnecessary litigation by removing many foreclosures from the courts where they contribute to overcrowded calendars.

(b) The purpose of this title is to create a uniform Federal foreclosure remedy for multiunit residential and nonresidential mortgages held by the Secretary of Housing and

Urban Development pursuant to title II of the National Housing Act or section 312 of the Housing Act of 1964.

DEFINITIONS

SEC. 403. As used in this title—

(1) "mortgage" means a deed of trust, mortgage, deed to secure debt, security agreement, or any other form of instrument under which any interest in property, real, personal or mixed, or any interest in property including leaseholds, life estates, reversionary interests, and any other estates under applicable State law, is conveyed in trust, mortgaged, encumbered, pledged, or otherwise rendered subject to a lien, for the purpose of securing the payment of money or the performance of an obligation;

(2) "multifamily mortgage" means a mortgage held by the Secretary pursuant to title II of the National Housing Act or section 312 of the Housing Act of 1964 covering any property, except a property on which there is located a one- to four-family residence;

(3) "mortgage agreement" means the note or debt instrument and the mortgage instrument, deed of trust instrument, trust deed, or instrument or instruments creating the mortgage, including any instrument incorporated by reference therein (including any applicable

regulatory agreement), and any instrument or agreement amending or modifying any of the foregoing;

(4) "mortgagor" means the obligor, grantor, or trustor named in the mortgage agreement and, unless the context otherwise indicates, includes the current owner of record of the security property whether or not personally liable on the mortgage debt;

(5) "person" includes any individual, group of individuals, association, partnership, corporation, or organization;

(6) "record" and "recorded" include "register" and "registered" in the instance of registered land;

(7) "security property" means the property, real, personal or mixed, or an interest in property, including leaseholds, life estates, reversionary interests, and any other estates under applicable State law, together with fixtures and other interests subject to the lien of the mortgage under applicable State law;

(8) "State" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, the territories and possessions of the United States, and the Trust Territory of the Pacific Islands, and Indian tribes as defined by the Secretary;

(9) "county" means county as defined in section 2 of title I, United States Code; and

(10) "Secretary" means the Secretary of Housing and Urban Development.

MORTGAGES SUBJECT TO ACT

SEC. 404. Multifamily mortgages held by the Secretary encumbering real estate located in any State may be foreclosed by the Secretary in accordance with this title, or pursuant to other foreclosure procedures available, at the option of the Secretary.

DESIGNATION OF FORECLOSURE COMMISSIONER

SEC. 405. A foreclosure commissioner or commissioners designated pursuant to this title shall have a nonjudicial power of sale as provided in this title. Where the Secretary is the holder of a multifamily mortgage, the Secretary may designate a foreclosure commissioner and, with or without cause, may designate a substitute foreclosure commissioner to replace a previously designated foreclosure commissioner, by executing a duly acknowledged, written designation stating the name and business or residential address of the commissioner or substitute commissioner. The designation shall be effective upon execution. Except as provided in section 408(b), a copy of the designation shall be mailed with each copy of the notice of default and foreclosure sale served by mail in accordance with section 409(1). The foreclosure commissioner, if a natural person, shall be a resident of the State in which the security property is located and, if not a natural

person, the foreclosure commissioner must be duly authorized to transact business under the laws of the State in which the security property is located. The foreclosure commissioner shall be a person who is responsible, financially sound and competent to conduct the foreclosure. More than one foreclosure commissioner may be designated. If a natural person is designated as foreclosure commissioner or substitute foreclosure commissioner, such person shall be designated by name, except that where such person is designated in his or her capacity as an official or employee of the government of the State or subdivision thereof in which the security property is located, such person may be designated by his or her unique title or position instead of by name. The Secretary shall be a guarantor of payment of any judgment against the foreclosure commissioner for damages based upon the commissioner's failure properly to perform the commissioner's duties. As between the Secretary and the mortgagor, the Secretary shall bear the risk of any financial default by the foreclosure commissioner. In the event that the Secretary makes any payment pursuant to the preceding two sentences, the Secretary shall be fully subrogated to the rights satisfied by such payment.

PREREQUISITES TO FORECLOSURE

SEC. 406. Foreclosure by the Secretary under this title of a multifamily mortgage may be commenced, as provided in

section 408, upon the breach of a covenant or condition in the mortgage agreement for which foreclosure is authorized under the mortgage if any previously pending proceeding, judicial or nonjudicial, separately instituted by the Secretary to foreclose the mortgage other than under this title has been withdrawn, dismissed, or otherwise terminated. No such separately instituted foreclosure proceeding on the mortgage shall be instituted by the Secretary during the pendency of foreclosure pursuant to this title. Nothing in this title shall preclude the Secretary from enforcing any right, other than foreclosure, under applicable State law, including any right to obtain a monetary judgment. Nothing in this title shall preclude the Secretary from foreclosing under this title where the Secretary has obtained or is seeking any other remedy available pursuant to Federal or State law or under the mortgage agreement, including, but not limited to, the appointment of a receiver, mortgagee-in-possession status or relief under an assignment of rents.

NOTICE OF DEFAULT AND FORECLOSURE SALE

SEC. 407. (a) The notice of default and foreclosure sale to be served in accordance with this title shall be subscribed with the name and address of the foreclosure commissioner and the date on which subscribed, and shall set forth the following information:

(1) the names of the Secretary, the original mortgagee and the original mortgagor;

(2) the street address or a description of the location of the security property, and a description of the security property, or so much thereof as is to be offered for sale, sufficient to identify the property to be sold;

(3) the date of the mortgage, the office in which the mortgage is recorded, and the liber and folio or other description of the location of recordation of the mortgage;

(4) the failure to make payment, including the due date of the earliest installment payment remaining wholly unpaid as of the date the notice is subscribed, or the description of other default or defaults upon which foreclosure is based, and the acceleration of the secured indebtedness;

(5) the date, time, and place of the foreclosure sale;

(6) a statement that the foreclosure is being conducted pursuant to the Multifamily Mortgage Foreclosure Act of 1981;

(7) the types of costs, if any, to be paid by the purchaser upon transfer of title; and

(8) the amount and method of deposit to be required at the foreclosure sale (except that no deposit shall be required of the Secretary), the time and method of payment of the balance of the foreclosure purchase price and other appropriate terms of sale.

(b) As a condition and term of sale, the Secretary may require that the purchaser at a foreclosure sale under this title agree to continue to operate the security property in accordance with the terms, as appropriate, of the loan program under section 312 of the Housing Act of 1964, the program under which insurance under title II of the National Housing Act was originally provided with respect to such property, or any applicable regulatory or other agreement in effect with respect to such property immediately prior to the time of foreclosure sale.

COMMENCEMENT OF FORECLOSURE

SEC. 408. (a) If the Secretary as holder of a multifamily mortgage determines that the prerequisites to foreclosure set forth in section 406 are satisfied, the Secretary may request the foreclosure commissioner to commence foreclosure of the mortgage. Upon such request, the foreclosure commissioner shall commence foreclosure of the mortgage, by commencing service of a notice of default and foreclosure sale in accordance with section 409.

(b) Subsequent to commencement of a foreclosure under this title, the Secretary may designate a substitute foreclosure commissioner at any time up to forty-eight hours prior to the time of foreclosure sale, and the foreclosure shall continue without prejudice, unless the substitute commissioner, in his or her sole discretion, finds that continuation of the foreclosure sale will unfairly affect the interests of the mortgagor. In the event that the substitute commissioner makes such a finding, the substitute commissioner shall cancel the foreclosure sale, or adjourn such sale in the manner provided in section 411(c). Upon designation of a substitute foreclosure commissioner, a copy of the written notice of such designation referred to in section 405 shall be served upon the persons set forth in section 409(1) of this title (1) by mail as provided in such section 409 (except that the minimum time periods between mailing and the date of foreclosure sale prescribed in such section shall not apply to notice by mail pursuant to this subsection) or (2) in any other manner, which in the substitute commissioner's sole discretion, is conducive to achieving timely notice of such substitution. In the event a substitute foreclosure commissioner is designated less than forty-eight hours prior to the time of the foreclosure sale, the pending foreclosure shall be terminated and a new foreclosure shall be commenced by commencing service of a new notice of default and foreclosure sale.

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SERVICE OF NOTICE OF DEFAULT AND FORECLOSURE SALE

SEC. 409. The foreclosure commissioner shall serve the notice of default and foreclosure sale provided for in section 407 upon the following persons and in the following manner, and no additional notice shall be required to be served notwithstanding any notice requirements of any State or local law—

(1) NOTICE BY MAIL.—The notice of default and foreclosure sale, together with the designation required by section 405, shall be sent by certified or registered mail, postage prepaid and return receipt requested, to the following persons:

(A) the current security property owner of record, as the record exists forty-five days prior to the date originally set for foreclosure sale, whether or not the notice describes a sale adjourned as provided in this title;

(B) the original mortgagor and all subsequent mortgagors of record or other persons who appear of record or in the mortgage agreement to be liable for part or all of the mortgage debt, as the record exists forty-five days prior to the date originally set for foreclosure sale, whether or not the notice describes a sale adjourned as provided

in this title, except any such mortgagors or persons who have been released; and

(C) all persons holding liens of record upon the security property, as the record exists forty-five days prior to the date originally set for foreclosure sale, whether or not the notice describes a sale adjourned as provided in this title.

Notice under clauses (A) and (B) of this paragraph shall be mailed at least twenty-one days prior to the date of foreclosure sale, and shall be mailed to the owner or mortgagor at the address stated in the mortgage agreement, or, if none, to the address of the security property, or, at the discretion of the foreclosure commissioner, to any other address believed to be that of such owner or mortgagor. Notice under clause (C) of this paragraph shall be mailed at least ten days prior to the date of foreclosure sale, and shall be mailed to each such lienholder's address as stated of record or, at the discretion of the foreclosure commissioner, to any other address believed to be that of such lienholder. Notice by mail pursuant to this subsection or section 408(b) of this title shall be deemed duly given upon mailing, whether or not received by the addressee and whether or not a return receipt is received or the letter is returned.

(2) PUBLICATION.—A copy of the notice of default and foreclosure sale shall be published, as provided herein, once a week during three successive calendar weeks, and the date of last publication shall be not less than four nor more than twelve days prior to the sale date. The information included in the notice of default and foreclosure sale pursuant to section 407(a)(4) may be omitted, in the foreclosure commissioner's discretion, from the published notice. Such publication shall be in a newspaper or newspapers having general circulation in the county or counties in which the security property being sold is located. To the extent practicable, the newspaper or newspapers chosen shall be a newspaper or newspapers, if any is available, having circulation conducive to achieving notice of foreclosure by publication. Should there be no newspaper published at least weekly which has a general circulation in one of the counties in which the security property being sold is located, copies of the notice of default and foreclosure sale shall be posted in at least three public places in each such county at least twenty-one days prior to the date of sale.

(3) POSTING.—A copy of the notice of default and foreclosure sale shall be posted in a prominent place at or on the real property to be sold at least seven days

prior to the foreclosure sale, and entry upon the premises for this purpose shall be privileged as against all persons. If the property consists of two or more noncontiguous parcels of land, a copy of the notice of default and foreclosure sale shall be posted in a prominent place on each such parcel. If the security property consists of two or more separate buildings, a copy of the notice of default and foreclosure sale shall be posted in a prominent place on each such building. Posting at or on the premises shall not be required where the foreclosure commissioner, in the commissioner's sole discretion, finds that the act of posting will likely cause a breach of the peace or that posting may result in an increased risk of vandalism or damage to the property.

PRESALE REINSTATEMENT

SEC. 410. (a) Except as provided in sections 408(b) and 411(c), the foreclosure commissioner shall withdraw the security property from foreclosure and cancel the foreclosure sale only if—

(1) the Secretary so directs the commissioner prior to or at the time of sale;

(2) the commissioner finds, upon application of the mortgagor at least three days prior to the date of sale, that the default or defaults upon which the foreclosure

is based did not exist at the time of service of the notice of default and foreclosure sale; or

(3)(A) in the case of a foreclosure involving a monetary default, there is tendered to the foreclosure commissioner before public auction is completed the entire amount of principal and interest which would be due if payments under the mortgage had not been accelerated; (B) in the case of a foreclosure involving a nonmonetary default, the foreclosure commissioner, upon application of the mortgagor before the date of foreclosure sale, finds that such default is cured; and (C) there is tendered to the foreclosure commissioner before public auction is completed all amounts due under the mortgage agreement (excluding additional amounts which would have been due if mortgage payments had been accelerated), all amounts of expenditures secured by the mortgage and all costs of foreclosure incurred for which payment from the proceeds of foreclosure is provided in section 412, except that the Secretary shall have discretion to refuse to cancel a foreclosure pursuant to this clause if the current mortgagor or owner of record has on one or more previous occasions caused a foreclosure of the mortgage, commenced pursuant to this title or otherwise, to be canceled by curing a default.

(b) Prior to withdrawing the security property from foreclosure in the circumstances described in subsection (a)(2) or (a)(3), the foreclosure commissioner shall afford the Secretary a reasonable opportunity to demonstrate why the security property should not be so withdrawn.

(c) In any case in which a foreclosure commenced under this title is canceled, the mortgage shall continue in effect as though acceleration had not occurred.

(d) If the foreclosure commissioner cancels a foreclosure sale under this title, a new foreclosure may be subsequently commenced as provided in this title.

CONDUCT OF SALE; ADJOURNMENT

SEC. 411. (a) The date of foreclosure sale set forth in the notice of default and foreclosure sale shall not be prior to thirty days after the due date of the earliest installment wholly unpaid or the earliest occurrence of any uncured nonmonetary default upon which foreclosure is based. Foreclosure sale pursuant to this title shall be at public auction, and shall be scheduled to begin between the hours of 9 o'clock ante meridian and 4 o'clock post meridian local time on a day other than Sunday or a public holiday as defined by section 6103(a) of title 5, United States Code, or State law. The foreclosure sale shall be held at a location specified in the notice of default and foreclosure sale, which shall be a location where foreclosure real estate auctions are customarily

held in the county or one of the counties in which the property to be sold is located, or at a courthouse therein, or at or on the property to be sold. Sale of security property situated in two or more counties may be held in any one of the counties in which any part of the security property is situated.

(b) The foreclosure commissioner shall conduct the foreclosure sale in accordance with the provisions of this title and in a manner fair to both the mortgagor and the Secretary. The foreclosure commissioner shall attend the foreclosure sale in person, or, if there are two or more commissioners, at least one shall attend the foreclosure sale. In the event that no foreclosure commissioner is a natural person, the foreclosure commissioner shall cause its duly authorized employee to attend the foreclosure sale to act on its behalf. Written one-price sealed bids shall be accepted by the foreclosure commissioner from the Secretary and other persons for entry by announcement by the commissioner at the sale. The Secretary and any other person may bid at the foreclosure sale, including the Secretary or any other person who has submitted a written one-price bid, except that the foreclosure commissioner or any relative, related business entity or employee of such commissioner or entity shall not be permitted to bid in any manner on the security property subject to foreclosure sale. The foreclosure commissioner may serve as auctioneer, or, in accordance with regulations of the Secretary, may

employ an auctioneer to be paid from the commission provided for in section 412(5).

(c) The foreclosure commissioner shall have discretion, prior to or at the time of sale, to adjourn or cancel the foreclosure sale if the commissioner determines, in the commissioner's sole discretion, that circumstances are not conducive to a sale which is fair to the mortgagor and the Secretary or that additional time is necessary to determine whether the security property should be withdrawn from foreclosure as provided in section 410. The foreclosure commissioner may adjourn a sale to a later hour the same day without the giving of further notice, or may adjourn the foreclosure sale for not less than nine nor more that twenty-four days, in which case the commissioner shall serve a notice of default and foreclosure sale revised to recite that the foreclosure sale has been adjourned to a specified date and to include any corrections the foreclosure commissioner deems appropriate. Such notice shall be served by publication, mailing and posting in accordance with section 409, except that publication may be made on any of three separate days prior to the revised date of foreclosure sale, and mailing may be made at any time at least seven days prior to the date to which the foreclosure sale has been adjourned.

FORECLOSURE COSTS

SEC. 412. The following foreclosure costs shall be paid from the sale proceeds prior to satisfaction of any other claim to such sale proceeds:

(1) necessary advertising costs and postage incurred in giving notice pursuant to sections 409 and 411;

(2) mileage for posting notices and for the foreclosure commissioner's attendance at the sale at the rate provided in section 1921 of title 28, United States Code, for mileage by the most reasonable road distance;

(3) reasonable and necessary costs actually incurred in connection with any necessary search of title and lien records;

(4) necessary out-of-pocket costs incurred by the foreclosure commissioner to record documents; and

(5) a commission for the foreclosure commissioner for the conduct of the foreclosure to the extent authorized by regulations issued by the Secretary.

DISPOSITION OF SALE PROCEEDS

SEC. 413. Money realized from a foreclosure sale shall be made available for obligation and expenditure first to cover the costs of foreclosure provided for in section 412; then to pay valid tax liens or assessments prior to the mort-

gage; then to pay any liens recorded prior to the recording of the mortgage which are required to be paid in conformity with the terms of sale in the notice of default and foreclosure sale; then to service charges and advancements for taxes, assessments, and property insurance premiums; then to the interest; then to the principal balance secured by the mortgage (including expenditures for the necessary protection, preservation, and repair of the security property as authorized under the mortgage agreement and interest thereon if provided for in the mortgage agreement); and then to late charges. Any surplus after payment of the foregoing shall be paid to holders of liens recorded after the mortgage and then to the appropriate mortgagor. If the person to whom such surplus is to be paid cannot be located, or if the surplus available is insufficient to pay all claimants and the claimants cannot agree on the allocation of the surplus, or if any person claiming an interest in the mortgage proceeds does not agree that some or all of the sale proceeds should be paid to a claimant as provided in this section, that part of the sale proceeds in question may be deposited by the foreclosure commissioner with an appropriate official or court authorized under law to receive disputed funds in such circumstances. If such a procedure for the deposit of disputed funds is not available, and the foreclosure commissioner files a bill of interpleader or is sued as a stakeholder to determine entitle-

ment to such funds, the foreclosure commissioner's necessary costs in taking or defending such action shall be deductible from the disputed funds.

TRANSFER OF TITLE AND POSSESSION

SEC. 414. (a) The foreclosure commissioner shall deliver a deed or deeds to the purchaser or purchasers and obtain the balance of the purchase price in accordance with the terms of sale provided in the notice of default and foreclosure sale.

(b) The foreclosure deed or deeds shall convey all of the right, title, and interest in the security property covered by the deed which the Secretary as holder, the foreclosure commissioner, the mortgagor, and any other persons claiming by, through, or under them, had on the date of execution of the mortgage, together with all of the right, title, and interest thereafter acquired by any of them in such property up to the hour of sale, and no judicial proceeding shall be required ancillary or supplementary to the procedures provided in this title to assure the validity of the conveyance or confirmation of such conveyance.

(c) A purchaser at a foreclosure sale held pursuant to this title shall be entitled to possession upon passage of title to the mortgaged property, subject only to an interest or interests senior to that of the mortgage, and any other person remaining in possession thereafter shall be deemed a tenant at sufferance.

(d) There shall be no right of redemption, or right of possession based upon right of redemption, in the mortgagor or others subsequent to a foreclosure pursuant to this title.

(e) When conveyance is made to the Secretary, no tax shall be imposed or collected with respect to the foreclosure commissioner's deed, whether as a tax upon the instrument or upon the privilege of conveying or transferring title to the property. Failure to collect or pay a tax of the type and under the circumstances stated in the preceding sentence shall not be grounds for refusing to record such a deed, for failing to recognize such recordation as imparting notice or for denying the enforcement of such a deed and its provisions in any State or Federal court.

RECORD OF FORECLOSURE AND SALE

SEC. 415. (a) To establish a sufficient record of foreclosure and sale, the foreclosure commissioner shall include in the recitals of the deed to the purchaser or prepare an affidavit or addendum to the deed stating—

(1) that the mortgage was held by the Secretary;

(2) the particulars of the foreclosure commissioner's service of notice of default and foreclosure sale in accordance with sections 409 and 411;

(3) that the foreclosure was conducted in accordance with the provisions of this title and with the terms of the notice of default and foreclosure sale;

(4) a correct statement of the costs of foreclosure, calculated in accordance with section 412; and

(5) the name of the successful bidder and the amount of the successful bid.

(b) The deed executed by the foreclosure commissioner, the foreclosure commissioner's affidavit and any other instruments submitted for recordation in relation to the foreclosure of the security property under this title shall be accepted for recordation by the registrar of deeds or other appropriate official of the county or counties in which the security property is located upon tendering of payment of the usual recording fees for such instruments.

COMPUTATION OF TIME

SEC. 416. Periods of time provided for in this title shall be calculated in consecutive calendar days including the day or days on which the actions or events occur or are to occur for which the period of time is provided and including the day on which an event occurs or is to occur from which the period is to be calculated.

SEPARABILITY

SEC. 417. If any clause, sentence, paragraph or part of this title shall, for any reason, be adjudged by a court of competent jurisdiction to be invalid or invalid as applied to a class of cases, such judgment shall not affect, impair, or invalidate the remainder thereof and of this title, but shall be

confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

REGULATIONS

SEC. 418. The Secretary is authorized to issue such regulations as may be necessary to carry out the provisions of this title.

TITLE V—RURAL HOUSING

AUTHORIZATIONS

SEC. 501. (a) Section 513 of the Housing Act of 1949 is amended—

(1) by striking out "not to exceed $3,797,600,000 with respect to the fiscal year ending September 30, 1981" in subsection (a) and inserting in lieu thereof "not to exceed $3,700,600,000 with respect to the fiscal year ending September 30, 1982";

(2) by striking out "not less than $3,120,000,000" in subsection (a)(1) and inserting in lieu thereof "not less than $3,170,000,000";

(3) by striking out subsection (b)(2) and inserting in lieu thereof the following:

"(2) not to exceed $49,000,000 for loans and grants pursuant to section 504 for the fiscal year ending September 30, 1982, of which not more than $25,000,000 shall be available for grants;";

(4) by striking out subsection (b)(3) and inserting in lieu thereof the following:

"(3) not to exceed $24,000,000 for financial assistance pursuant to section 516 for the fiscal year ending September 30, 1982;"; and

(5) by striking out "and" at the end of subsection (b)(4), by striking out the period at the end of subsection (b)(5) and inserting in lieu thereof "; and", and by adding at the end thereof the following:

"(6) not to exceed $2,000,000 for the purposes of section 509(c) for the fiscal year ending September 30, 1982.".

(b) Section 515(b)(5) of such Act is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1982".

(c) Section 517(a)(1) of such Act is amended by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1982".

(d) Section 521(a)(2)(D) of such Act is amended—

(1) by striking "$493,000,000" and inserting in lieu thereof "$398,000,000"; and

(2) by striking out "September 30, 1981" and inserting in lieu thereof "September 30, 1982".

(e) Section 523 of such Act is amended—

(1) by striking out "September 30, 1981" each place it appears in subsection (f) and inserting in lieu thereof "September 30, 1982";

(2) by adding at the end of subsection (f) the following: "None of the funds appropriated under this subsection shall be available for the purposes of subsection (b)(1)(B)."; and

(3) by striking out "not to exceed $2,500,000 for fiscal year 1981" in the first sentence of subsection (g) and inserting in lieu thereof "not to exceed $1,000,000 for fiscal year 1982".

DEFINITION OF LOW INCOME

SEC. 502. Section 501(b)(4) of the Housing Act of 1949 is amended to read as follows:

"(4) For the purpose of this title, the term 'persons of low income' and the term 'persons and families of low-income' mean persons and families whose incomes do not exceed those levels established for any area by the Secretary with adjustments for smaller and larger families.".

INTEREST SUBSIDY PROGRAM

SEC. 503. Section 521(a)(1)(B) of the Housing Act of 1949 is amended by striking out "shall" and inserting in lieu thereof "may".

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REPORTS

SEC. 504. The Secretary of Agriculture shall transmit a report to the Congress not later than March 1, 1982, setting forth—

(1) various options for presenting the budget of the Farmers Home Administration and alternatives to the use of Federal Financing Bank financing for rural housing programs;

(2) workable definitions of "low income" which will target Farmers Home Administration housing assistance programs to a population substantially equivalent to the population served by the Department of Housing and Urban Development's assisted housing programs;

(3) the effect of a requirement that 30 per centum of assistance provided Farmers Home Administration be provided to families with incomes at 50 per centum of area median income and recommendations for contribution requirements which will achieve equity with the contribution requirements of the Department of Housing and Urban Development's assisted housing programs;

(4) recommendations for ensuring that subsidy levels for assisted families are minimized and that as-

sisted families with similar circumstances in different regions of the country are treated equally; and

(5) the Farmers Home Administration's efforts to minimize the cost of housing subsidized under its programs and the Farmers Home Administration's use of existing lower cost housing technology.

Passed the Senate June 3 (legislative day, June 1), 1981.

Attest: WILLIAM F. HILDENBRAND,

Secretary.

BY THE COMPTROLLER GENERAL

Report To The Ranking Minority Member Committee On Appropriations United States Senate

OF THE UNITED STATES

The Community Development Block Grant Program Can Be More Effective In Revitalizing The Nation's Cities

The revitalization needs of the Nation's cities far outstrip the Federal Government's ability to provide funds to help provide decent housing, jobs, and neighborhoods. The Department of Housing and Urban Development's Community Development Block Grants allow cities to use Federal funds to finance a broad range of activities and services. However, GAO found that the lack of limitations on how funds may be used is diluting the program's impact. Furthermore, grantees need to focus block grant funds where they can achieve visible long-term results.

The Congress should examine the need for limitations in the block grant program. Congressional examination of this program would be useful in evaluating the administration's proposal to restructure HUD's community development assistance programs so that limited funds can be used more effectively without excessive Federal intervention in the program's day-to-day operations.

CED-81-76
APRIL 30, 1981

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-199908

The Honorable William Proxmire
Ranking Minority Member
Committee on Appropriations
United States Senate

Dear Senator Proxmire:

As requested in your July 29, 1980, letter, and as subsequently discussed with your office, we reviewed the Community Development Block Grant Program to assess the effectiveness of targeting of funds, residential rehabilitation, and monitoring of grantee performance. This is our report on the subject.

We requested the Department of Housing and Urban Development to comment on this report, but the Department did not provide comments within the time period provided for in Public Law 96-226.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from its issue date. At that time we will send copies to the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,

Milton J. Socolar

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE RANKING MINORITY MEMBER
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM CAN BE MORE EFFECTIVE IN REVITALIZING THE NATION'S CITIES

D I G E S T

The Community Development Block Grant Program allows cities to undertake a wide variety of activities to provide decent housing, jobs, and neighborhoods for their residents. Funds can be used for acquisition and disposition of property, street improvements, water and sewer facilities, rehabilitation of private properties, public services and parks, playgrounds, and other recreational facilities.

The program's legislative history shows that, while the Congress intended communities to have great flexibility in implementing their block grant programs, cities were to design their individual programs within broad national objectives. In essence, the act called for more Federal involvement than a "revenue sharing" approach but less than had existed under the categorical programs which the block grant program replaced.

In view of the size of the cities' problems and the limited amount of funds available, it is imperative that block grant funds be used prudently. However, GAO found that

--cities often spread funds too widely, thus diluting the impact they may have on the cities' revitalization;

--rehabilitation funds often are spent for questionable purposes and are not always provided to persons in the greatest need; and

--there sometimes is insufficient information to determine whether funds are properly spent for eligible activities.

BETTER TARGETING NEEDED

The Department of Housing and Urban Development (HUD) has taken several initiatives to encourage better targeting by communities. While these initiatives have produced positive results, community and HUD officials indicate a need exists for even better targeting. (See p. 7.)

HUD and city officials attribute the dispersion of block grant funds to numerous and large geographic areas to local pressures to spread funds around the city rather than to concentrate them in distressed areas where significant improvements can be made in a reasonable period of time. (See p. 7.)

Compounding the geographic dispersion problem, the broad range of eligible activities has resulted in cities funding items and activities whose relationship to cities' revitalization needs is questionable. For example, public services such as child care, health services, police services, education, and counseling can be funded from the Community Development Block Grant Program. However, city officials believe these services--amounting to about $240 million annually--are of lowest priority in urban revitalization.

While these services may be needed, the Congress should consider whether funds authorized to revitalize our communities should be used on these activities in light of the great revitalization needs facing our communities. (See p. 9.)

CHANGES NEEDED IN BLOCK GRANT REHABILITATION

Over 25 percent of all block grant funds nationwide are used for residential housing rehabilitation. The need for rehabilitation far exceeds community goals and achievements. For example, in one city GAO visited, over 14,000 housing units needed rehabilitation, but only 377 units had been completed, and only 425 more were planned for rehabilitation over a 3-year period. (See p. 18.)

The broad latitude afforded communities in designing their own rehabilitation programs has hindered their effectiveness. Some examples of work performed include replacing functional appliances, constructing patios and sundecks, and installing dishwashers and trash compactors. GAO also found widely varying income eligibility requirements, financing techniques, and maximums allowed for rehabilitation work. (See p. 20.)

Communities provide block grant-supported rehabilitation funds to their residents through grants and/or loans. Income eligibility limits

for the programs GAO reviewed ranged from strict to none at all. In one city 31 out of the last 200 loans made went to residents whose annual incomes exceeded $30,000. (See p. 20.)

GAO also found a wide range in the extent and types of rehabilitation work. For example, maximum assistance financed by grants ranged from $1,500 to $15,000 and from $6,000 to $35,000 for work financed by loans. (See p. 21.)

In a nationwide review of block grant rehabilitation activities, HUD's Inspector General identified other problems, including contractors being paid for work not done, poor quality workmanship, and initial and final inspections not being performed or documented. (See p. 22.)

MONITORING IS IMPROVING BUT CONTROLS OVER GRANTEE EXPENDITURES SHOULD BE FURTHER ANALYZED

Responding to past reports of weaknesses in HUD's monitoring of block grant recipients, HUD has modified its grantee monitoring system. These changes appear promising in solving past problems, but it is too soon to fully determine their effect. (See p. 29.)

Grantees' controls over expenditures of block grant funds are an essential prerequisite to preventing fraud, abuse, and waste. Although it was not included in the scope of GAO's review, there are numerous examples where information and controls are inadequate to assure that program expenditures are for eligible items and are adequately supported and/or justified.

HUD's Inspector General needs to do more to identify the overall extent of these problems and prescribe solutions.

RECOMMENDATION TO THE CONGRESS

The Community Development Block Grant Program's legislative history provides for local flexibility. However, GAO's review raises questions as to whether local flexibility should be tempered with more Federal guidance on the overall limits within which cities can operate their block grant programs.

GAO recommends that appropriate congressional committees examine the overall impact of assistance provided under the Community Development Block Grant Program and identify additional measures needed to meet the objectives of the Housing and Community Development Act of 1974. Specifically, the following issues should be considered:

--The need for all grantees to concentrate their block grant funds in distressed geographic areas small enough so that visible improvements can be achieved in a reasonable time period and to ensure that claimed benefits to low- and moderate-income persons are, in actuality, occurring.

--The need to reduce the broad list of activities currently eligible so that funds can be focused on those activities which meet the cities' most urgent revitalization needs. Some activities, public services for example, might more appropriately be funded by other Federal agencies, with knowledge of and expertise to administer and establish priorities for these activities.

--The need to develop overall income eligibility requirements for recipients of block grant-supported rehabilitation. Such limits would result in increasing the number of low- and moderate-income persons who could be served by the program.

--The need to limit eligible rehabilitation work to that which is essential to restore the housing unit to a safe, decent, and sanitary condition, specifically prohibiting non-essential and luxury items, so that more homes needing basic repairs can be rehabilitated.

This examination would also help the Congress in considering the administration's proposal to restructure HUD's community development assistance programs into a more efficient and flexible grant mechanism. Targeting and additional Federal guidance on eligible items--two topics which GAO believes should be the subject of congressional examination--could increase the program's impact and help reduce the effect of proposed budget cuts without excessive Federal

intervention in the program's day-to-day operations. (See p. 25.)

RECOMMENDATION TO THE SECRETARY, HUD

The Secretary should direct the Inspector General to determine the extent of problems in grantees' controls over expenditures of block grant funds and to recommend solutions to the problems. (See p. 36.)

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GAO requested HUD to comment on this report, but HUD did not provide comments within the time period provided for in Public Law 96-226.

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ABBREVIATIONS

CPD	Community Planning and Development
GAO	General Accounting Office
HAP	housing assistance plan
HUD	Housing and Urban Development
IG	Inspector General (HUD)
IPA	independent public accountant
NSA	neighborhood strategy areas

G L O S S A R Y

Grantee Performance Report	Each entitlement recipient submits an annual grantee performance report as required by section 104(d) of the Housing and Community Development Act of 1974. The grantee is required to include information in the report on progress of activities, benefit to income groups, and housing opportunities, among other data.
Housing assistance plan	The housing assistance plan is a required part of the application for block grant assistance and (1) assesses housing conditions and households that need assistance, (2) identifies the goals to meet these needs, and (3) describes the actions to achieve these goals. The plan is intended to coordinate community development and Federal housing programs.
Neighborhood strategy areas	An area designated in a community's 3-year community development and housing plan for a program of concentrated community development activities. For each neighborhood strategy area the applicant shall include in its 3-year plan a comprehensive strategy for stabilizing and upgrading the area which (1) provides for a combination of physical improvements and necessary public facilities and services; housing programs; private investment and citizen self-help activities, (2) coordinates public and private development efforts, and (3) provides sufficient resources to produce substantial long-term improvements in the area within a reasonable period of time.

CHAPTER I

INTRODUCTION

At the request of the former Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, we reviewed specific aspects of the Department of Housing and Urban Development's (HUD's) Community Development Block Grant Program. On July 29, 1980, the subcommittee requested that we conduct two reviews. Based on the request, the first report 1/ contained an analysis of block grant drawdown rates. For this report, we were specifically asked to focus on targeting of funds, effectiveness of rehabilitation, and monitoring of grantee performance.

CONDITION OF OUR NATION'S COMMUNITIES

Many housing and community development challenges face our Nation during the 1980s--the most critical of these is the need to revitalize our Nation's cities. Our cities are an important national resource because they represent a massive amount of economic, social, and physical investment.

Unfortunately, however, many communities are experiencing economic and fiscal distress so severe that they cannot provide a decent environment, adequate jobs, and viable neighborhoods for their residents. The problems are most profound for those cities in distress, but pockets of poverty also exist in relatively healthy communities.

The Federal Government's concern over community growth and development has been expressed many times and in many ways. Financial assistance amounting to billions of dollars has been provided to our Nation's communities to help solve their problems. Federal outlays in fiscal year 1981 for community and regional development activities will be about $9 billion. An additional $28 billion will support civil public works and construction, the primary purpose of which is to fulfill other national needs but also promote community and regional development.

The Nation's first comprehensive urban policy statement, 2/ issued on March 23, 1978, stated, in part:

> "Our goal must first be to provide immediate assistance to the most troubled cities and communities. Beyond this, our goal must be to help all cities offer their residents decent

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1/"Analysis of Community Development Block Grant Drawdown Rates" (CED-80-137, Aug. 20, 1980).

2/"A New Partnership To Conserve America's Communities: A National Urban Policy," prepared by the President's Urban and Regional Policy Group.

services, adequate jobs, sound neighborhoods, good housing, and healthy environments. Our efforts should be directed, to the maximum extent possible, at helping cities help themselves.

"We should help distressed cities and communities recover their financial stability and make certain that today's healthy cities do not become distressed in the future. We should also assist our older cities to restructure their economies and better adapt to change. A decent quality of life must be made available to their residents."

Recent indications, however, are that efforts to revitalize communities have had little impact. For example, a 1980 report entitled "The Prospects for Urban Revival," prepared under a HUD contract to the Brookings Institution, concludes that

"* * * there is little evidence, at least to date, that either residential or economic revitalization has had any appreciable impact on any appreciable number of older cities."

Furthermore, this report concluded that

"* * * we lack the statistical capacity to say a great deal about recent changes in cities, and it is unlikely that we will gain that capacity in the future."

Regarding prospects for the future, this report concluded:

"In sum, available evidence provides little cause for optimism about the not-too-distant past of more distressed cities. Over the middle seventies, people, jobs, and wealth continued to move out of these cities and into newer, more prosperous ones. By almost any reasonable measure of the prosperity of places--levels of population, income, employment, economic activity, and concentration of low-income households--more distressed cities were appreciably worse off in the late seventies than they were 10 years earlier, and more prosperous cities were appreciably better off. Some areas inside some older cities may be reviving, but these revivals don't affect the overall trend. Available evidence, in short, provides no support whatever for the notion that the urban crisis is over, or has moderated to the extent that it is no longer a matter of legitimate governmental concern."

BLOCK GRANT PROGRAM
HISTORY AND DESCRIPTION

Title I of the Housing and Community Development Act of 1974 (Public Law 93-383) created a new program within HUD which became effective January 1, 1975. This program, called the Community Development Block Grant Program, replaced several former categorical grant and loan programs under which communities applied for funds on a case-by-case basis, including urban renewal, neighborhood development program grants, open space urban beautification and historic preservation grants, public facility loans, water and sewer and neighborhood facilities grants, and Model Cities grants.

The change to the block grant approach reflected a desire to shift the responsibility for community development from the Federal Government to the local governments, as well as to streamline the application and review process. The block grant program provides communities much more flexibility than was allowed under the categorical system to design programs which will meet the cities' community development needs.

While the 1974 act provides for greater decentralization of authority to cities (compared to previous categorical programs), local discretion was tempered by national objectives. In essence, a compromise was struck between the administration and the Congress, resulting in a program which provided for more Federal involvement than a "revenue sharing" program but less than previous categorical programs. As finally enacted, the act provided that cities meet certain conditions in their use of block grant funds.

Under the block grant program, the city can choose from a wide range of eligible activities with which to devise a community development program. The list of eligible activities, while including some activities eligible for assistance for the first time, is basically a combination of those activities eligible under the categorical programs. Communities assisted under the program can undertake a wide range of activities including, among other things, acquiring and disposing of property, street improvements, water and sewer facilities, rehabilitation of private properties, public services and parks, playgrounds and other recreational facilities.

Cities with populations over 50,000, central cities of standard metropolitan statistical areas, and some urban counties with populations over 200,000 are entitled to receive funds. Presently, about 660 communities are eligible for block grant funds under the entitlement provision of the program. The annual amount each community is entitled to is based on a dual formula which takes into account the following criteria:

First formula	Second formula
Poverty - 50%	Poverty - 30%
Population - 25%	Population growth lag (1960-75) - 20%
Overcrowded housing - 25%	Age of housing stock - 50%

The community is entitled to the higher amount from the two formulas.

Upon application and HUD approval, communities receive funds for various community development activities designed to eliminate slums and blight, assist low- and moderate-income persons, and respond to urgent local needs. Within general guidelines established by HUD, local governments receive funding for activities they have planned and are responsible for administering.

About $19 billion has been appropriated during the 6-year period of the program. The current authorization for fiscal years 1981, 1982, and 1983 is about $12 billion. However, the new administration has proposed reducing the funding for a combination of the block grant and Urban Development Action Grant programs, and consequently the full amount of the authorization may not be requested.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to assess three important aspects of the block grant program: the degree to which funds are being concentrated (targeted) on strategic geographic areas, high priority activities, and low- and moderate-income people; the effectiveness of the block grant rehabilitation program; and the quality of HUD's monitoring system. We conducted our review at HUD headquarters in Washington, D.C.; its area offices in Buffalo, Chicago, Knoxville, Los Angeles, Milwaukee, Minneapolis, Newark, New York, and Washington, D.C.; and examined 15 block grant program recipients in California, Illinois, Minnesota, New Jersey, New York, Tennessee, Virginia, and Wisconsin.

Prior to initiating our audit effort, we reviewed available community development reports and literature, concentrating on HUD reports and those of independent researchers and consultants, to gain a thorough understanding of the issues involved in the block grant program.

During our work, we talked to HUD's Assistant Secretary for Community Planning and Development, as well as others on his staff, including the Deputy Assistant Secretary for Urban Policy; the Director, Office of Field Operations and Monitoring; the Director, Office of Block Grant Assistance; and the Director, Office of Evaluation. In addition, we attended "Selected City" briefings, HUD field offices' presentations to the Assistant

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Secretary on the community development programs of various cities. We also reviewed HUD headquarters' evaluations of field offices. As well as monitoring congressional hearings, we met with city officials to obtain their views of the program.

We judgmentally selected the 15 grantees 1/ to obtain geographic dispersion and a good mix of such variables as the amount of block grant funds received and spent; population; degree of distress; whether the community's grants had been conditioned by HUD for any reason; and amount of funds spent for certain activities, such as rehabilitation and public works. We consulted with various HUD officials on our selection of communities, and they generally agreed that we had a good mix of entitlement grantees in the program.

Although not intended to be statistically representative, nor capable of being projected across the whole program, we believe that the activities of the communities reviewed present a good cross section of the activities being conducted with block grant funds. Our findings are confirmed in reports issued by HUD's Inspector General and in reports prepared by various research organizations. Further, we examined the adequacy of existing procedures to determine whether deficiencies identified could occur on a widespread basis.

Although our review of the block grant program identified several problem areas needing improvement, we observed many beneficial activities directed at eliminating slums and blight or which were assisting low- and moderate-income persons. The accomplishments of the block grant program are the subject of a study HUD is currently undertaking.

The statistical information in this report is generally based on fiscal year 1980 HUD and community records. Where we discuss individual activities of selected communities, we used the 3 most recent completed program years, usually 1978-1980.

1/See appendix III for a listing of the 15 grantees we visited.

CHAPTER 2

BETTER TARGETING NEEDED FOR MORE EFFECTIVE COMMUNITY DEVELOPMENT

Communities are not sufficiently targeting their funds to defined geographic areas in which substantial improvements can be made in a reasonable period of time. Target areas are too large and too numerous for effective concentration of block grant funds.

We also observed activities being conducted which city and HUD officials believed were minimally related to community development. City and HUD officials acknowledged that the list of activities eligible under the program is virtually all-inclusive, resulting in the spreading of block grant funds across the city rather than addressing the city's greatest community development needs. During 1979, entitlement communities allocated approximately $240 million to public services. Some activities funded include ice-skating and music lessons, a preschool home learning program, and a repertoire theatre. Many city officials included in our review ranked public services low when asked to prioritize the eligible activities on the basis of their cities' needs. Some cities had already begun to phase down public services in their block grant programs.

BETTER TARGETING TO GEOGRAPHIC AREAS NEEDED

Although HUD has pursued measures which have somewhat reversed the early trends toward scattering of block grant resources, HUD and city officials told us political pressures have forced spreading of funds. Areas cities have designated for improvement, sometimes called neighborhood strategy areas (NSAs), are often too large and numerous. Many cities still do not have NSAs.

Little concentration of funds during early years

The 1974 block grant legislation encouraged concentration and coordination of community development activities to maximize the impact of block grant funds. Communities, however, did not concentrate their funds. Thus the funds were spread over areas that were too large for any significant long-term effect.

The National Association of Housing and Redevelopment Officials reported in 1977 that, in the second program year,

> "* * * less than 2 percent of the cities in the sample have programmed funds to less than 20 percent of their [census] tracts * * *. On the other end of the scale, about 35 percent of the cities funded between 91 and 100 percent of their total city tracts."

A February 1977 report prepared by the staff of the House Committee on Banking, Finance and Urban Affairs questioned the geographic dispersion of block grant resources, as well as the lack of regard for the impact of those resources. The report questioned whether or not block grant funded community development programs are "merely a variety of eligible activities scattered throughout the community without regard to sound planning and which could result in little or no long-term impact."

Concerns about dispersion of funds prompted HUD to issue regulations in March 1978, encouraging cities to do better geographic targeting. HUD urged cities to "designate appropriate areas [NSAs] in which various programs can be carried out in a concentrated and coordinated manner." For each NSA the applicant "shall include in its Plan a comprehensive strategy for stabilizing and upgrading the area * * *." The regulations stated that an NSA plan should provide for a combination of activities appropriate to the needs of the area, coordinate public and private development efforts, and provide sufficient resources to produce substantial long-term improvements within a reasonable period of time. The definition of substantial long-term improvements within a reasonable period of time was left to the discretion of HUD's field offices.

HUD's emphasis on geographic targeting has been somewhat successful. According to a 1980 Brookings Institution report, by the end of the fourth program year, communities were directing more funds toward concentrated neighborhood revitalization. Additionally, several area office representatives told us that cities are reducing the size and number of NSAs, thereby facilitating better geographic targeting. Several city officials stated that NSA designation has brought about visible improvements in their communities. However, HUD officials told us that many NSAs are still too large and some cities have too many NSAs.

Geographic targeting could be more effective

Officials in cities we visited informed us of political pressures to spread block grant funds geographically. As one block grant director explained it, the problem is that on the one hand the city wants the funds with no restrictions, while on the other hand, the lack of Federal regulation leaves the program in the situation of being "everything to everybody." For example, one program administrator told us that there was political pressure to give everyone "a piece of the pie."

In a Brookings Institution workshop, a participant stated that in evaluating one city's program

> "* * * there are several desperately bad areas that want to be targeted. They will not be targeted because of the pressure from these 14 single-member districts and the representatives from them to

> spread around things like parks and recreation and swimming pools * * *. The neighborhoods are in desperate need of help. Yet, the political system is spreading CDBG [Community Development Block Grant] funds across the whole consolidated government."

Another participant indicated that in another city "the 15 city council members jockey for as much money as each can get from the block grant. If they had their preference, they would choose a 15-way split."

HUD area office officials, including its Office of Community Planning and Development (CPD) Directors, acknowledged that both the number and size of NSAs need to be reduced. One CPD area office Director stated that most cities have too many NSAs and their NSAs are too large. After inspecting projects in one NSA he concluded that, although the work was good, the NSA was so large that the impact on the area was negligible.

A questionable aspect of the NSA approach is that it is optional. According to the Director, Entitlement Cities Division, many communities have neither NSAs nor target areas. HUD officials told us that the current legislation does not permit HUD to require grantees to geographically target their funds. Some communities included in our review had not established NSAs. An area office official responsible for monitoring a city without any NSAs told us that there is no assurance that good targeting is being done in that city and acknowledged that political pressures force dispersion of funds throughout the city.

A HUD Inspector General (IG) report also expressed concern about how effectively NSA plans are being implemented. A 1980 Denver regional office audit report covering seven NSAs, stated that an NSA in one area appeared to be too large for normal concentrated development. Although the application described the NSA strategy as a 15- to 20-year undertaking, no evidence was found to indicate that HUD questioned the size of the NSA. The report concluded that, contrary to the NSA concept, cities have failed to perform the prerequisites for effective NSA implementation: determining strategy area total needs, total available resources, and specific time periods for project implementation. The report stated that

> "* * * we believe such [NSA] planning is essential to assure the overall commitment of Grantee officials as well as effective and efficient grant administration."

The Denver regional office concurred with the findings of the audit. In order to address the deficiencies, the office informed all its entitlement grantees that it had established the standard that an NSA project must address 75 percent of the identified needs within a 6- to 9-year period. Further, the office specified the minimum information required for designating an NSA.

The IG's staff discussed this audit with HUD central office officials. In April 1980, HUD issued a notice to its area offices on review of block grant applications in which it was acknowledged that area offices have not had adequate information on NSA needs, resources, and timing on which to base NSA judgments. The notice further states that in some cases grantees have inaccurately stated NSA needs and resources. The notice advises area offices that:

--Before approval of any new NSAs, the area office must ensure that the applicant has provided a quantification of NSA needs, quantification of resources to deal with those needs, and a schedule for the provision of those resources.

--Each area office should establish its own review standard of what constitutes substantial long-term improvements within a reasonable period of time. (The rule of thumb HUD provides is that "an NSA must address 75 percent of the major housing and community development needs within a six to nine year period.")

--Regarding deficient NSA data, area offices are to notify grantees that they must provide adequate information or risk having conditions placed on the grant preventing obligation or expenditure for any activity dependent on NSA designation for eligibility.

BROAD APPLICABILITY OF BLOCK GRANT FUNDS LIMITS PROGRAM IMPACT

The flexibility and broad applicability of the block grant program, combined with pressure from politicians and citizen groups, has resulted in funds being spent on some activities which, in city and HUD officials' opinions, are questionably related to revitalization needs of our Nation's cities. One particular class of activity, public services, funded annually at about $240 million, was questioned by many HUD and city officials we contacted. When asked to establish priorities for all eligible items, city officials ranked public services low in priority. Many officials said this activity could be eliminated from eligibility with little or no effect on the block grant program's goals. Additionally, several officials in HUD and the cities said block grant funds are, in many instances, used to finance activities which are more related to the missions of other Federal agencies.

Public service activities questionably related to revitalization objectives

During fiscal year 1979, entitlement communities nationally allocated about $240 million (or 9 percent of entitlement cities' block grant funds) to public services. Public services became one of the activities eligible under the block grant program because it was a major component of the Model Cities program, one

of the categorical programs folded into the block grant program. However, the report accompanying the Senate version of the Housing and Community Development Act of 1974 stated that public services were intended to be deemphasized under the block grant program. The Senate report states that

> "Provision of public services * * * would be limited to a maximum expenditure of 20 percent of the total grants received by the community development agency during any contract period * * *."

The report goes on to say that

> "* * * specific percentage limitations were included in order to make clear the Congressional intent that community development funds be used chiefly for 'hardware' rather than 'software' activities."

While this requirement was not included in the final version of the law as enacted, it does indicate that the need to focus block grant funds on hardware-type items has been recognized since program inception.

On a national level, the trend of public service expenditures has generally been downward. Public service spending decreased from about 13 percent in the first program year to about 9 percent in the fifth program year. However, on the city level, there are wide variances in public service spending. Although some cities are phasing public services down in their programs, many cities have annually allocated more than 20 percent of their funds to public services. For example, we noted that one city allocated 46.3 percent of its annual block grant funds to public services for its fifth program year.

City officials told us that public services could be eliminated from their programs with minimal impact on their cities' revitalization needs. In fact, when we asked them to rank all the block grant eligible items on the basis of priority or greatest need to their respective communities, many of the program directors and their staffs ranked public service activities last or in the lowest category. Samples of comments we received from HUD and city officials regarding the relationship of public services to meeting city revitalization needs include:

--Public services are a "bottomless pit."

--Public services is another way that funds can be dissipated with scant effect on revitalization.

--More time and money is wasted on public services than what they are worth.

Ironically, one city included in our review which ranked public services as its lowest priority budgeted 22 percent (about $29 million) of its fifth-year grant on this activity.

Some officials in those cities that still permit public services told us they have tried to phase down this activity over the years. One such city's application for block grant funds stated,

> "* * * because of increasing emphasis on housing and community development programs, all of the public service programs, both new and continuing, are being funded for one year only."

When we asked city officials why these activities are still funded, given that they believe public services have a dubious relationship to city revitalization needs, we were told that the primary cause was citizen group pressure. For example, a city official told us that residents look upon block grant money as being a "model cities" program and exert pressure for public service activities.

Alternative sources could be used for public services and other minimal impact activities

The report accompanying the Senate version of the Housing and Community Development Act of 1974 (S. Rept. No. 93-693, Feb. 27, 1974, to accompany S. 3066) stated that the Committee on Banking, Housing and Urban Affairs believed that "community development funds should not be expended on programs which are primarily within the purview of agencies other than HUD."

We identified several projects (water and sewer, educational programs, parks and playgrounds, etc.) currently funded by block grant funds which may be eligible for funding by other Federal agencies, such as the Departments of Health and Human Services, Commerce, Education, and the Interior; the Community Services Administration; and the Environmental Protection Agency. City officials acknowledged that some activities currently funded under block grants could be funded by other agencies.

HUD requires that certain other sources of funding be sought before block grant funds are used (24 CFR 570.607). A HUD official told us that this regulation can easily be circumvented, however, by applying for those funds at the "right" time (i.e., when funding is unlikely).

TARGETING IMPROVED, BUT VERIFICATION OF BENEFITS TO LOW- AND MODERATE-INCOME PERSONS NOT ALWAYS ADEQUATE

During the first 2 years of the program, funds were poorly targeted to lower income groups, despite the fact that targeting of benefits to these groups is one of the major objectives of the program. Section 101(c) of the Housing and Community Development Act of 1974 specifies that:

> "* * * the primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income."

However, HUD regulations implementing the law did not contain standards regarding the degree of targeting to low- and moderate-income persons, and local certification of benefits to lower income groups was accepted as proof of targeting.

In August 1976, during Senate oversight hearings, community development organizations revealed the consequences of loose program beneficiary standards. The National Association of Housing and Redevelopment Officials reported that a substantial portion of block grant benefits had not gone to lower income groups in the first year, and the share of block grant funds to these groups had dropped in the second year. During the same hearing, the Southern Regional Council 1/ criticized local uses of block grant funds for tennis courts and other amenities in higher income residential areas.

HUD issues program benefit regulations in response

Subsequent to criticisms about poor targeting of benefits, HUD issued new regulations in March 1978 (24 CFR 570.302) on program benefits to low- and moderate-income persons. The regulations stipulated, in part, that:

> --"* * * each annual application * * * must provide that the applicant's program as a whole shall principally benefit low- and moderate-income persons."
>
> --"* * * an application shall be presumed to principally benefit low- and moderate-income persons, absent substantial evidence to the contrary, where not

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1/The Southern Regional Council, established in 1944, is a research organization dedicated to attaining equal opportunity for all people in the South.

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> less than 75 percent of the program funds to be available during the three year period covered by the applicant's community development and housing plan shall be used for projects and activities which principally benefit low- and moderate-income persons * * *."

These regulations were tempered by a 1978 amendment to the act which stated that:

> "The Secretary may not disapprove an application on the basis that such application addresses any one of the primary purposes [principally benefitting persons of low- and moderate-income, aiding in the prevention or elimination of slums or blight, or meeting other community development needs having a particular urgency] to a greater or lesser degree than any other, except that such application may be disapproved if the Secretary determines that the extent to which a primary purpose is addressed is plainly inappropriate to meeting the needs and objectives which are consistent with the community's efforts to achieve the primary objective of this title."

Although the 1978 amendments provided additional definition to HUD's interpretation of the act's objectives, benefit to low- and moderate-income persons remains an important consideration in the program's administration, in that it is one of three primary purposes cited in the act.

According to a 1980 Brookings Institution report, entitled "Targeting Community Development," targeting of block grant benefits to low- and moderate-income persons has improved due to HUD emphasis. The report states that HUD guidance on social targeting has been an important variable in the broad, upward shift of lower income benefits.

Questionable assertions of benefits

City assertions of block grant benefits to low- and moderate-income persons are sometimes questionable. HUD area offices have accepted information on benefit to low- and moderate-income persons without adequate verification.

In one city we visited, a HUD area office representative indicated that the city was providing adequate benefits to low- and moderate-income persons, but we later discovered that the city had not been keeping track of such data. In an October 31, 1979, letter to the grantee, a HUD area office representative stated "all of the projects review(ed) were claimed as benefitting low- and moderate-income persons. There was no evidence found that this was not the case." We reviewed the

city's grantee performance report, showing progress achieved through December 31, 1979, and found that the grantee had failed to include required information on direct benefits to low- and moderate-income persons, stating "current data collection system does not include this information."

The HUD area office representative now responsible for monitoring the city acknowledged that this is a serious deficiency. After further investigation, she stated that the city has not been keeping track of direct benefits to low- and moderate-income persons. In a November 12, 1980, letter, the area office informed the city that income and ethnic data was missing for all direct beneficiary activities and instructed the city to develop a data collection system to incorporate this information.

In another city we visited, HUD is just currently questioning most of the city's activities regarding its benefits to low- and moderate-income persons. Our review disclosed, however, that these activities have been ongoing for several years.

The selected city briefing for another city stated that public interest groups lodged complaints in 1979 against the city's block grant program, challenging whether activities asserted to benefit low- and moderate-income persons actually provided benefits to that income group. The HUD area office acknowledged that some of the complainants' claims were valid and proposed that much of the city's 1979 funds be reprogramed or reclassified. Another public interest group complaint was issued against the city's 1980 program, charging again that activities did not principally benefit low- and moderate-income persons. Again, the HUD area office acknowledged such deficiencies and proposed reprograming of funds to correct inadequacies.

A 1979 report by the National Commission on Neighborhoods 1/ questions how effectively cities are targeting their block grant funds to low- and moderate-income persons, and whether HUD is adequately monitoring these benefits. The Commission's report stated that "[block grant] funds have been used to benefit middle and upper income people rather than the lower income groups for whom the program was intended." Further, the Commission recommended that the block grant program should be subject to a more accurate and detailed performance monitoring system in order to ascertain whether expenditures meet HUD benefit guidelines.

The Director, Entitlement Cities Division, stated that it is very difficult to determine who is benefiting from the block grant program, especially for such activities as general public

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1/A 15-month study commission, established by the National Neighborhood Policy Act of 1977, called upon to investigate the causes of neighborhood decline.

improvements and economic development. According to the Director, documentation for these activities is poor and usually based on outdated data.

CONCLUSIONS

Meeting the objectives of the Housing and Community Development Act--eliminating slums and blight, aiding low- and moderate-income persons, and reacting to urgent local needs--would be enhanced by better targeting of resources, as well as by eliminating non-essential items and confirming that benefits are appropriately provided to low- and moderate-income persons. HUD initiatives in encouraging better targeting have been somewhat successful, but the impact of block grant resources would be enhanced by requiring that all cities concentrate their block grant funds in distressed geographic areas small enough so that visible improvements are achievable in a reasonable time period.

There is a need for limited citywide activities, such as emergency home repairs. However, concentrating funds into specifically designated areas, coupled with good planning and coordination of other Federal and local assistance, has, according to city officials and community development experts, proven to be an effective way to achieve visible, long-term revitalization goals. Yet, block grant resources need to be concentrated better. If better concentration could be achieved, it would help eliminate the negative effects of political and citizen influence to spread funds around the city, referred to so often by the officials we interviewed and in the reports we analyzed.

Permitting funds to be spent on projects marginally related to community development, such as public service activities, has reduced the impact of the block grant program. Although public services are eligible under current regulations, and while we recognize that many of these services are needed by various segments of society, the Congress should consider whether funds authorized to revitalize our communities should be used on these activities in light of the great revitalization needs facing our communities. Funds spent on these marginally related activities reduce the amount available for the most pressing revitalization needs. Furthermore, program benefits to low- and moderate-income persons are not always sufficiently verified. In addition, many of these public service activities might more appropriately be funded by other Federal agencies.

Because of our findings regarding targeting of block grant funds, we are recommending in chapter 3 that the Congress examine the program and consider whether further measures should be taken to maximize the impact of block grant funds without excessive Federal intervention in the program's day-to-day operations.

CHAPTER 3

CHANGES NEEDED TO ENHANCE THE IMPACT OF BLOCK GRANT REHABILITATION RESOURCES

Community emphasis on housing rehabilitation under the block grant program has grown steadily since the program's inception. Funding for block grant rehabilitation has grown from about $232 million in 1975 to over $800 million in 1979. According to HUD estimates, nearly 200,000 housing units were rehabilitated with block grant funds in 1979. While a substantial number of housing units have been rehabilitated under the block grant program, the number falls short of the Nation's rehabilitation needs.

The broad latitude afforded communities in designing their own rehabilitation programs has hindered their effectiveness. For example, some communities permit non-essential repairs. Furthermore, the disparity in income eligibility requirements has resulted in some high-income owners receiving assistance, thus reducing funds available for low- and moderate-income persons.

HUD's IG has identified several program abuses and administrative weaknesses, such as cost estimates that were not prepared, contractors that were paid for work not done, grantees that certified work was done when it was not, and initial inspections that were not performed or documented.

The Office of Community Planning and Development believes it has initiated actions to increase local expertise and eliminate problems identified in the IG's review of rehabilitation activities. In addition to considering expanded monitoring and technical assistance, CPD is studying the feasibility of amending block grant regulations to improve performance.

While we recognize the desire for local flexibility in the program, limitations on rehabilitation activities should be considered because funds are currently being spent on lower priority repairs and for persons not in the greatest need. The great need to improve our Nation's housing stock and the relatively slow progress being made raise the question of whether the Nation can afford the flexibility that now exists in the program.

PROGRESS HAS BEEN MADE BUT GREAT NEED STILL EXISTS

Although progress has been made toward meeting the Nation's housing rehabilitation needs, our review and a recent report prepared by HUD's Office of Policy Development and Research both disclosed that communities' rehabilitation needs far surpass

accomplishments. Given past output levels, it would take many years to meet actual rehabilitation needs. 1/

Communities identified a great need for rehabilitation in their housing assistance plans (HAPs). The HAP is a required part of the application for block grant assistance and serves as an assessment of housing conditions and households in need of assistance, an identification of the goals to meet these needs, and a description of the actions to achieve the housing goals. A summary of national housing conditions aggregated from communities' 1979 HAP data shows that the total number of units suitable for rehabilitation was 5,330,865.

We asked the city officials to identify the number of units (1) needing rehabilitation, (2) planned for rehabilitation, and (3) rehabilitated. As shown in the following chart, the output from the rehabilitation programs is small when compared to needs identified in the HAPs. City officials generally based their answers on their 3-year HAP, and the following chart shows their responses. 2/

1/It should be noted, however, that the block grant program is not the only HUD program under which housing rehabilitation can be conducted.

2/Data was not readily available for three cities included in our review.

City	Units in need of rehabilitation	Units completed	Units planned for 1979, 1980, 1981
A	2,059	500	685
B	1,258	78	100
C	709	78	315
D	159,400	373	3,555
E	10,066	200 (est.)	606
F	14,843	377	425
G	2,964	124	200
H	4,754	54	478
I	210	107	173
J	8,520	1,076	2,700
K	10,025	98	905
L	2,228	581	450
Total	217,036	3,646	10,592

Furthermore, an October 1979 report by HUD's Office of Policy Development and Research entitled "Designing Rehab Programs" stated, after reviewing six cities' rehabilitation programs, "generally the output from the rehabilitation programs is small when compared to needs identified in the HAP." In five of the programs, the report stated that total rehabilitation needs met annually ranged only from less than 1 percent to a high of 12 percent. In our opinion, this magnifies the importance of making the best use of available resources.

COMMUNITIES DESIGN THEIR PROGRAMS AND BUDGET SUBSTANTIAL AMOUNTS TO REHABILITATION

HUD's role in local rehabilitation programs focuses on improving local capabilities rather than designing rehabilitation programs. The block grant program by legislative design allows each community the flexibility to set its own program requirements, administrative procedures, and financing techniques. Communities are increasingly emphasizing rehabilitation in their programs. Activities performed include correcting code violations, weatherizing, and cosmetic and emergency repairs.

CPD's Office of Urban Rehabilitation and Community Reinvestment's strategy statement for 1981 states the office's goal for rehabilitation programs is to make a significant, positive difference in local, public, and property rehabilitation programs. For example, HUD plans to provide training and technical assistance to cities and improve program monitoring. All rehabilitation activities the office supports are designed to improve local capabilities in one or more of the following areas:

--Financial resources.

--Staff skills.

--Program design.

--Delivery capacity.

In order to develop and implement a rehabilitation program the community must determine who the program should serve and how the program should be implemented. In terms of program requirements, the community decides on the locations or areas in the city that will receive assistance, the residents eligible to receive assistance, and the level of rehabilitation work to be performed. In terms of program implementation, the community decides on the types of financing techniques used and contracting and inspection procedures.

Cities consider rehabilitation as one of their most important needs and budget substantial amounts to this activity. For each city we visited, we asked city officials to rank all eligible items based on their cities' needs and/or priorities. A majority of city officials ranked rehabilitation as one of the highest priority items on the list.

Furthermore, between 1975 and 1979 funding for rehabilitation activities for the entire block grant program increased steadily as demonstrated by the following table.

	1975	1976	1977	1978	1979
Amount of funds budgeted to rehabilitation (in millions)	$232	$327	$451	$569	$824
Percent of total block grant budget	9.5	11.4	13.8	16.9	26.3

HUD's Assistant Secretary for CPD recently estimated that the rehabilitation budget for the 12-month period ending September 30, 1980, was approximately $1 billion.

BROAD LATITUDE AFFORDED COMMUNITIES HAS HINDERED THE EFFECTIVENESS OF THE REHABILITATION PROGRAM

Some cities had very spartan rehabilitation programs where only health and safety items were repaired, whereas other programs allowed non-essential or cosmetic repairs. Examples of eligible items cities were funding which we believe are cosmetic or non-essential include

--replacing functional refrigerators and stoves,

--installing new dishwashers and trash compactors,

--installing new carpeting over adequate flooring,

--constructing garages,

--installing burglar alarm systems,

--repairing or replacing driveways, and

--constructing patios and sundecks.

Meanwhile, essential work is not being done on homes which are badly in need of basic repairs. The IG also found that grantees included in their survey were funding repairs, such as garages, driveways, structural additions, and a sundeck, which were not needed to correct housing code violations.

In our opinion repairs or items of the above nature are questionably related to the intent of the block grant program as it relates to providing decent housing and a suitable living environment. Some city officials whose programs did not include the items mentioned above expressed concern over these cosmetic or non-essential repairs and told us they believe these repairs should not be permitted.

As with the range of eligible items permitted, there were wide disparities in income eligibility limits for program beneficiaries, financing techniques, and maximum costs allowed. Eligibility criteria for rehabilitation assistance were based on income and family size or geographic location. Communities with no income limits tied eligibility to location rather than income. That is, if an individual lived within a certain area, he or she could receive assistance, regardless of income. However, this policy permitted middle- and upper-income homeowners to receive block grant assistance. For example, in one city, 31 out of the most recent 200 block grant-assisted loans (between 1978 and 1980) went to persons whose incomes exceeded $30,000 annually. In another city we visited, a woman whose annual income was $33,000, received a block grant assisted loan to rehabilitate her personal residence which she valued at $175,000.

The financing techniques used ranged from direct grants to loans with varying interest charges. The diversity of the various financing techniques is illustrated by the following examples:

--Four cities and one county used grants exclusively either to finance all rehabilitation costs or a certain percentage of the total costs; assistance was based on income and family size.

--Six cities provided either grants or loans. Generally only elderly or low-income persons were eligible for grants. Assistance was based on income and family size. In two of these cities the eligibility for higher interest loans was tied to location rather than income.

--Two cities used deferred payment loans with assistance based on family size and income.

--One city used both deferred payment loans and low interest loans; assistance was based on income and family size.

In a survey of about 1,100 rehabilitated properties, HUD's IG identified over 20 different methods of providing financial assistance. Appendix I shows the extent these various methods were used. Thus, persons receiving assistance in some communities would be ineligible for the same type of assistance in other communities. This raises a question of equity among the various local programs.

Probably the most striking variance we noted was the difference in maximum amounts allowed for rehabilitation work. Maximum assistance ranged from $1,500 to $15,000 for work financed by grants and from $6,000 to $35,000 for work financed by loans. Obviously, these disparities allow for substantial differences in the amount and types of rehabilitation work performed.

HUD INSPECTOR GENERAL REVIEW OF REHABILITATION ACTIVITIES HAS IDENTIFIED SIGNIFICANT WEAKNESSES

A recent review conducted by HUD's IG identified several program abuses and administrative weaknesses in block grant rehabilitation activities which minimize the program's accomplishments and effectiveness. HUD's IG recommended developing various administrative requirements to control these problems, but HUD's Assistant Secretary for CPD disagreed with these recommendations and stated that further monitoring, not administrative requirements, would solve the problems identified.

Inspector General report

The IG's office issued a nationwide operational survey of block grant rehabilitation activities in November 1980. The survey's objectives were to identify possible irregularities and/or abuse and administrative weaknesses, and the extent thereof, in the operation of block grant rehabilitation activities. The survey included a review of 97 entitlement grantees and 1,119 of about 20,490 properties approved for rehabilitation between July 1, 1978, and June 30, 1979. The IG reviewed HUD field office records and interviewed HUD staff responsible for monitoring the program. The IG reviewed grantee procedures for administering the rehabilitation activities, reviewed selected case files, interviewed recipients, and inspected repairs. Irregularities or abuses identified included

--contractors that billed for and were paid for work not done,

--grantees that certified work done when it was not, and

--grantees and contractors that possibly worked together to arrive at excessive costs.

Also, the IG projected that grantees contracted for repairs of approximately $106 million on housing which had or will have at least one serious housing quality standard violation after the rehabilitation was complete. The IG stated that spending such a large portion of block grant funds for repairs to housing which will not be free of health and safety hazards after repairs are made is contrary to the program's primary objective.

The more prevalent administrative weaknesses included

--initial inspections that were not performed or documented,

--cost estimates that were not always prepared,

--vague work writeups, and

--final inspections that were not performed or documented.

(Appendix II shows administrative weaknesses and the percent of grantees experiencing these weaknesses.)

The IG attributed the weaknesses to the grantees' inexperience with rehabilitation programs and to HUD's lack of established, specific administrative procedures for grantees to follow.

The IG recognized that the lack of specific procedural requirements affords grantees flexibility in providing assistance. In recommending corrective actions, the IG recognized that these actions will reduce the amount of flexibility grantees have.

However, the IG strongly believes corrective actions are needed to assure that block grant funds are used efficiently, effectively, and economically and that the actions will not adversely affect the flexibility.

HUD's IG recommended that the Assistant Secretary should:

--Develop and publish specific administrative requirements that grantees must meet.

--Limit the percentage of a grantee's rehabilitation budget which can be used for repairing properties that will not meet housing quality standards.

--Issue a notice to all grantees and HUD field offices reiterating the requirements for counting rehabilitation units toward HAP goals. Specifically, units proposed must be substandard and upon completion of rehabilitation, meet minimum housing quality standards and be occupied by lower income households.

To avoid duplicating the IG's efforts, we did not review administrative procedures in detail. However, we noted variances in implementing administrative procedures. For example, some cities prepared more detailed work specifications than others. Some recently completed repairs were in poor condition and repair items listed in the contract were not done.

CPD response to Inspector General report

In its October 1980 response to the IG's draft report, CPD stated concern over the weaknesses identified. However, CPD does not believe that the problems cited are the result of the administrative flexibility which localities have been provided. CPD's response to HUD's IG states the Office of Inspector General survey indicates most localities already require initial inspections, require work write-ups, and require final inspections. Therefore, in their view, the problems are not related to the lack of administrative procedures but to the local staff capacity and skill.

The response states that CPD believes it has initiated activities necessary to both increase local expertise and eliminate critical problems in rehabilitation programs, including

--a major expansion of rehabilitation staffs in each area office,

--a major technical assistance effort made available through the Community Rehabilitation Training Center, and

--an addition to the comprehensive monitoring handbook on review of rehabilitation activities.

The Assistant Secretary did acknowledge, however, that the survey findings make it clear that ongoing monitoring and technical assistance efforts need to be strengthened. He stated, however, that "improved monitoring and problem assessment are of little value unless there is some method to assure improvements in performance." Responding to the IG survey, CPD stated that it planned to study the feasibility of the following proposals:

--Increase monitoring of local program performance by outside parties, rehabilitation management specialists, and CPD representatives.

--Amend block grant regulations to allow HUD monitors to (1) cite local rehabilitation programs for failing to meet standards of effective performance and (2) impose sanctions for failure to improve performance.

--Expand technical assistance activities and training in order to respond to the problems identified through monitoring.

In November 1980, CPD issued a notice on monitoring review of rehabilitation activities by CPD representatives and other nonspecialist staff. The notice provides more specific instructions for implementing monitoring reviews of local community rehabilitation activities and provides guidance for proper training of nonspecialist staff to satisfactorily perform these duties.

Specifically, the notice calls for the area manager to develop a monitoring schedule in order to meet an operating plan requirement for rehabilitation review. In addition to selecting rehabilitation projects for progress, benefit, and HAP reviews, the notice states that limited reviews of rehabilitation should be done in at least 50 percent of the block grant entitlement grantees where an in-depth review by the rehabilitation management specialist is not scheduled.

The Director of HUD's Office of Urban Rehabilitation and Community Reinvestment told us that standards for grantee performance are being developed, focusing on program efficiency and quality of rehabilitation work. He said that these standards coupled with technical assistance should help reduce the types of inefficiencies which we observed during our review. Consequently, he said he would not advocate specific program limitations to preclude the types of problems we observed (i.e., assistance to high-income persons and allowing non-essential and luxury type items). While we believe the steps HUD plans to take are positive, they will not preclude the problems we observed if cities do not voluntarily choose to discontinue these practices. Thus, we believe that program limitations may need to be considered to minimize the types of problems we observed.

CONCLUSIONS

Despite the accomplishments of block grant-supported rehabilitation efforts, a large number of homes still need rehabilitation. HUD's reports recognize that program output is small compared to rehabilitation needs. Given these great needs, we believe it is important that the limited resources available for this purpose be used as efficiently as possible.

The broad flexibility, however, afforded communities in designing and operating their block grant-supported rehabilitation programs has hindered their effectiveness. For example, some grantees allowed non-essential rehabilitation work to be funded and provided assistance to relatively high-income persons. In addition, we observed a large range in the limits of assistance under the various programs, which raises the question of equity.

Our work supports the IG's findings in terms of evidence of unneeded repairs and poor quality workmanship. CPD, in response to the IG's findings, is considering the following: increasing monitoring and technical assistance and amending block grant regulations to include standards of effective performance.

RECOMMENDATION TO THE CONGRESS

While we recognize that the block grant program's legislative history provides for local flexibility in administering the program, our review has identified shortcomings which raise questions as to whether local flexibility should be tempered with more Federal guidance on the overall limitations within which cities can operate their block grant programs.

Because of the deficiencies identified in our review and recognizing that the Federal resources available to meet the revitalization needs of our Nation's cities are limited, we recommend that the appropriate congressional committees examine the overall impact of assistance provided under the block grant program and identify additional measures needed to meet the objectives of the Housing and Community Development Act of 1974. Specifically, the following issues should be considered:

--The need for all grantees to concentrate their block grant funds in distressed geographic areas small enough so that visible improvements are achievable in a reasonable time period; and to ensure that claimed benefits to low- and moderate-income persons are, in actuality, occurring.

--The need to reduce the broad list of activities currently eligible under the program to focus on those activities which meet the cities' most urgent revitalization needs. Some activities, public services for example, might more

appropriately be funded by other Federal agencies, with the knowledge of and expertise to administer and establish priorities for these activities.

--The need to develop overall income eligibility requirements for recipients of block grant-supported rehabilitation. Such limits would result in increasing the number of low- and moderate-income persons who could be served by the program.

--The need to limit eligible rehabilitation work to that which is essential to restore the housing unit to a safe, decent, and sanitary condition, specifically prohibiting non-essential and luxury items, so that more homes needing basic repairs can be rehabilitated.

Congressional examination of this program would also help the Congress in considering the administration's proposal to restructure HUD's community development assistance programs into a more efficient and flexible grant mechanism. Targeting and additional Federal guidance on eligible items--two of the topics which we believe should be the subject of congressional examination--could increase the program's impact and help reduce the effect of proposed budget cuts without excessive Federal intervention in the program's day-to-day operations.

CHAPTER 4

HUD OVERSIGHT OF THE BLOCK GRANT PROGRAM-- MONITORING CHANGES HAVE BEEN MADE BUT CONTROLS OVER GRANTEE EXPENDITURES SHOULD BE FURTHER ANALYZED

We, HUD's IG, and independent analysts have all been critical of HUD's oversight of the block grant program. For example, in August 1978 we reported 1/ that HUD lacked the basic tools to adequately monitor and evaluate grantee performance. Specifically, we reported that there was a lack of guidance to field personnel for making substantial assessments of grantee performance, and the information developed by grantees on their own performance was often incomplete and vague.

In the last 2 years, HUD has taken several steps to strengthen its monitoring of block grant recipients. Examples of steps HUD has taken include developing a comprehensive monitoring handbook, revising the grantee performance report, providing training to its area offices, conducting in-depth evaluations of about 25 local block grant programs each year, and preparing a summary of program accomplishments. These actions appear promising in addressing past program monitoring problems, but it is too early to fully determine their effect.

Program progress also has been measured substantially by the rate at which funds are spent by grantees. In our report "Analysis of Community Development Block Grant Drawdown Rates" (CED-80-137, Aug. 20, 1980), we reported that the emphasis HUD put on spending block grant funds created the potential for ineffective and inappropriate use of such funds. In October 1980, HUD issued a notice to its field offices emphasizing that other indicators of program progress should also be considered.

HUD's IG, independent public accountants (IPAs), and city comptrollers, as well as HUD's selected city briefings, have identified weaknesses in grantees' controls over block grant expenditures. These reviews are essential to control fraud, abuse, and waste in the program. We also identified problems in controls over expenditures of block grant funds. We noted that audits of block grant recipients have questioned and/or disallowed substantial amounts of block grant funds. Given the importance of adequate controls in preventing fraud, abuse, and waste, we believe HUD's IG should conduct an analysis to identify the extent of grantees' expenditure control problems and, if warranted, to

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1/"Management and Evaluation of the Community Development Block Grant Program Need To Be Strengthened" (CED-78-160, Aug. 30, 1978).

do additional work to identify the causes for these problems and possible solutions.

HUD's MONITORING OF THE BLOCK GRANT PROGRAM HAS BEEN CRITICIZED

We and HUD's IG have criticized HUD's monitoring of grantees. Past problems have included (1) a lack of adequate guidance to field offices to properly monitor the program, including measurable performance standards, (2) weaknesses in the grantee performance report, including incomplete and vague data, and (3) an over-reliance on grantee spending rates as a measure of program progress.

Our reports on block grant management and evaluation

Our August 1978 report pointed out various deficiencies. We stated that, although the program's legislative history emphasizes the importance of HUD postaudits and reviews, HUD had not fulfilled this responsiblity to a satisfactory degree. It was also noted that HUD had not adequately addressed substantive issues or emphasized the monitoring function and it did not have adequate standards, criteria, and performance data to evaluate community performance and progress. Our report identified such additional problems as vaguely described activities in applications and incomplete data in grantee performance reports.

The report concluded that HUD had neither required nor obtained the information needed to determine whether grantees are using block grant funds to meet legislative objectives. HUD procedures and requirements for grantee applications for funds, annual grantee reports on performance, and HUD field staff monitoring of grantee performance suffered from inadequate measurable performance standards. Such standards--when applied to grantee-planned activities--would provide the grantee and HUD with a more objective basis to evaluate performance; assess progress toward meeting community and legislative objectives; and determine future-year program needs, direction, and priorities. Without such standards, grantee performance and progress were not measurable, and HUD lacked assurance that program funds were being used in accordance with legislative objectives.

Essentially, the report recommended that HUD

--revise the grantee performance report to require specific information on grantee goals, objectives, and activity performance standards and

--revise its monitoring handbook to assure that it provides guidance to field personnel for making substantive assessments of grantee performance.

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In the August 1980 report on drawdown rates, we concluded that the emphasis HUD put on spending block grant funds in directives and guidance to its administrators created the potential for inappropriate and ineffective use of block grant funds. These policies and procedures place substantial emphasis on improving drawdown rates. Slow-spending grantees were encouraged by HUD to improve their spending rates, were put on spending schedules, and told that if funds were not used reduced funding would result.

HUD Inspector General criticizes block grant monitoring

In each of his last three semiannual reports to the Congress, HUD's IG has been critical of HUD's monitoring. The October 31, 1979, report stated that

> "Our audit reports during the current program period once again disclosed instances wherein problems and deficiencies on the part of program participants were going undetected and uncorrected due to insufficient on-site reviews by HUD Field personnel."

The April 30, 1980, report stated that during the reporting period, the IG's Office continued to disclose matters on HUD's inadequate monitoring of program recipients. The October 31, 1980, report stated that despite the importance of monitoring, instances of inadequate HUD monitoring continued to be detected. One example cited in this report stated:

> "During the current reporting period, we also completed a review of social service activities in the Community Development Block Grant Program in three of HUD's Regions. Our review disclosed weaknesses in HUD Area Offices' monitoring of grantees' compliance with social service requirements. This lack of monitoring contributed to grantees' neglecting their own monitoring responsibilities and thus permitted program deficiencies to go undetected."

MONITORING CHANGES MADE BY HUD APPEAR PROMISING, BUT IT IS TOO SOON TO FULLY DETERMINE THEIR EFFECT

HUD has been responsive to past problems in its oversight of the block grant program. It has made several changes within the last 2 years in the system it uses to monitor block grant recipients. HUD has provided area offices detailed guidance on monitoring grantees, revised the grantee performance report (instructions are being prepared on how to evaluate these reports), conducted in-depth evaluations of a limited number of grantees, and provided training to area office monitors. These steps and others have helped develop an improved framework for

monitoring block grant recipients. While these changes appear promising, it is too soon to fully determine their effect.

Changes HUD has made in its monitoring system include:

--HUD priority objectives for fiscal years 1979, 1980, and 1981 all contain specific monitoring goals; for example, all entitlement grantees must be monitored in four priority areas (program progress, benefit, housing assistance plans, and citizen participation).

--HUD produced a comprehensive block grant monitoring handbook which details CPD monitoring requirements more comprehensively than past instructions. During fiscal year 1979, field staff used this handbook to monitor grantees.

--The grantee performance report has been substantially changed during fiscal year 1980, and a handbook detailing review techniques and procedures was undergoing clearance as of February 1981.

--HUD sponsored a series of in-depth monitoring training courses during fiscal years 1979 and 1980 which directly involved about 350 field staff members. Additionally, training is planned in fiscal year 1981 for another 120 field employees in monitoring and using the new grantee performance report.

--A "critical or selected city" review process has been established which supplements normal monitoring efforts for approximately 25 grantees each year. Under this process, a list of entitlement communities is identified at the beginning of each year which, because of grantee size and/or problems, require special attention. Field staff from the appropriate area offices discuss significant issues concerning the grantee's performance and application with HUD headquarters officials. During fiscal years 1979 and 1980, approximately 50 such briefings had been conducted.

--A performance evaluation system has been instituted which entails the on-site review of community planning and development functions in each area office on a periodic (normally 2 years) basis by a HUD central office review team. One focus of this evaluation process is the quality of the monitoring systems established in each area office.

--HUD has established a procedure for annually rating every area office in all program areas, including monitoring. This system required HUD's central office staff to review a representative sample of all monitoring letters received in the central office during fiscal year 1980 with each letter being rated in 26 specific areas.

In addition, in October 1980, HUD issued a notice to its field offices pointing out that spending levels are only one measure of program progress and that other factors should be considered in analyzing problems of slow-spending grantees, including

--the latest grantee performance report and documentation developed during the review of the grantee performance report;

--the trip report, monitoring letter, and grantee response from the latest on-site monitoring visit which covered program progress; and

--analysis and documentation on program progress developed during the last annual in-house review.

While the steps HUD has taken are positive, their actual impact in improving program monitoring, operations, and effectiveness still depends heavily on how well area offices implement the procedures. We noted examples indicating that some problems still exist. For example, for one grantee

--the city was without a HUD representative for 8 months,

--the area office could produce documentation of only one monitoring visit to the grantee for the last 3 years, and

--the most recent grantee performance report lacked important information supporting claims of direct program benefits to low- and moderate-income people. (The HUD representative acknowledged this as a serious deficiency.)

At one grantee we visited, the city had large surpluses of block grant funds on hand on each of three dates:

Date	Funds on hand
September 2, 1980	$14,633,745
October 1, 1980	10,260,373
October 31, 1980	5,776,916

According to city officials, the reason for these large surpluses is that they did not establish a $10 million special escrow account after the funds had been drawn down for that purpose. HUD area office officials were unaware of the surplus

or that the funds drawn down for the escrow account had not been used for the approved purpose. After we brought it to his attention, the HUD program manager responsible for this city said he would investigate this matter during his next monitoring visit.

FURTHER ANALYSIS IS NEEDED TO DETERMINE THE EXTENT OF PROBLEMS IN CONTROLS OVER GRANTEE EXPENDITURES OF BLOCK GRANT FUNDS

Although it was not included in the scope of our work, our review, as well as HUD's IG reports, IPA audits, and city comptroller reviews, have identified many examples where inadequate information and controls exist to assure that program expenditures are for eligible items and are adequately supported and/or justified. Examples of weaknesses or deficiencies include funds spent on ineligible items, goods or services paid for but not received, existence of weak financial systems or procedures, and inability to compare expenditures to budgeted amounts. Our analysis of these previous audits and reviews of block grant expenditures, as well as examples disclosed in our review, raises serious concern that these identified problems or weaknesses could be pervasive in the block grant program.

Examples of problems in control over program expenditures identified in our review include:

--At one grantee we visited, an IPA report for program years 1976, 1977, and 1978 stated that because of deficiencies in the grantee's accounting system, it was not possible to readily determine program expenditures at periodic reporting dates. Since expenditures were not classified by program year, they could not be compared to budgeted amounts in the approved grant applications. A city block grant official told us that a new computerized accounting system for reporting expenditures matches every charge to a project to a specific code number and Federal grant number. The system provides monthly, quarterly, and annual reports on expenditures. While reviewing the computer printout for expenditures, however, we noticed that incorrect entries were made for amounts expended. A city block grant official said the errors were due to programing problems.

--For another grantee, after over 5 program years, HUD had received only one approved audit of the grantee's operations. The area office responsible for this city noted that although about 88 percent of the city's block grant funds had been spent, HUD was unable to reconcile obligations and physical accomplishments with actual drawdowns due to the city's totally unacceptable financial management system.

--One city comptroller's report we examined identified the following examples of inadequate controls:

(1) Administrative and operational practices were deficient.

(2) Bank accounts had not been reconciled since inception.

(3) Interest earned on cash deposits was transferred to the city's general fund instead of to the Federal Government.

--Nine of 24 selected-city briefing memorandums we reviewed identified problems in grantees' controls over expenditures, and included such comments as:

(1) "The financial management system was so weak that program managers could not obtain current complete data on the status of funds."

(2) "The City continues, despite several mutual attempts to resolve them, to have eight outstanding RIGA [Regional Inspector General for Audit] monitoring findings. The essential problem revolves around financial management as opposed to program performance."

(3) A HUD audit of the city's block grant program had several findings of importance. "Disallowed costs total $486,923 and questioned costs total $256,210."

(4) "Open findings remain from the second audit, dated July 26, 1978; many have been carried over into the third audit, dated January 23, 1980. RIGA [Regional Inspector General for Audit] has not yet accepted that report, which questioned costs of $28,163,076 for the period of July 1, 1977 to June 30, 1978."

--At another grantee, HUD had only recently approved the IPA reports for program years 1975 and 1976. HUD's regional IG in his audit rejection memorandum stated that the city's indirect cost rate was incorrect and as a result $3.2 million in indirect costs charged to the program were doubtful. The Department of Justice is conducting a criminal investigation of certain matters related to irregularities in program expenditures in this city's block grant program. Certain aspects of another city's block grant program was also under investigation by the Department of Justice.

HUD Inspector General identifies significant problems

In an April 3, 1978, memorandum, the IG's office summarized 175 audit reports on block grant recipients. The report indicated that audit findings were made in 135, or 77 percent, of the reports. This summary noted that about 70 percent of the grantees had one or more findings involving financial reviews. On an overall basis, about 55 percent of the 175 grantees were cited for deficiencies in accounting and budgeting. The summary pointed out the following types of problems: grantees did not maintain their books of account adequately and/or failed to establish all required books of account; and grantees did not maintain proper control over cash disbursements.

In a similar memorandum of July 22, 1980, the IG's office noted that all but 3 of the 107 audit reports on block grant recipients contained audit findings. The 107 audit reports disclosed about $2.7 million of disallowed costs and $19.6 million of questioned costs and included several frequently recurring problems such as charging ineligible costs and inadequately supported costs to the block grant program (this was the most prevalent problem and accounted for about 88 percent of the total disallowed costs and 38 percent of the total questioned costs); grantees drawing down block grant funds and holding them in excess of their needs; and charging block grant funds 100 percent for activities which should have been allocated between block grant and other community programs.

In an October 1980 semiannual report to the Congress, the HUD IG cited several grantees as having significant deficiencies. Following are examples included in the IG's report illustrating grantee expenditure deficiencies at block grant recipients.

--City A's report disclosed 15 major findings and disallowed costs of $1.8 million. The report identified several deficiencies, including (1) the city's failure to reimburse the block grant program for ineligible expenditures, (2) insufficient opportunities for neighborhood citizens to participate in the block grant program, (3) ineffective administration of rehabilitation activities; the City's programs to revitalize commercial areas; and property acquisition and relocation activities, (4) excessive drawdowns of funds, and (5) deficiencies in the procedures for accepting and processing sealed bids for construction work.

--City B's controller's report contained 49 audit findings, questioning about $28.2 million of block grant program costs. Of this amount, about $15.3 million could not be audited because the city controller was denied access to an IPA's workpapers. In addition, the records of a fund project area committee were under grand jury investigation, and records of three block grant operating agencies were

in the custody of the U.S. attorney. As of September 30, 1980, a total of $27.7 million of questioned costs had not been resolved.

--City C's report included 24 audit findings and disclosed disallowed costs totaling $1.02 million and questioned costs totaling $4.08 million. The overall conclusion was that the mismanagement and lack of fiscal responsibility on the part of the local agency in administering its block grant program resulted in a serious fiscal crisis. Problems were evidenced by the failure to maintain adequate accounting records and controls over program expenditures and activities as well as its failure to engage in effective monitoring and evaluation of program activities.

--City D's audit report contained 19 findings which included disallowed costs totaling about $1.7 million and questioned costs totaling $1.6 million. The overall conclusion was that the grantee did not administer its block grant program in an economical and efficient manner.

--City E's comptroller's audit report covering the third and fourth program years of the city's community development block grant program contains questioned and disallowed costs totaling $110 million.

IG reports have identified significant problems relating to controls over grantee expenditures of block grant funds. These reports, however, have been on individual grantee operations, rather than for the purpose of identifying systematic problems which may exist with a majority of grantees. Some of the findings disclosed in these reports, however, raise concern that the problems with grantee controls over expenditures may be pervasive in the block grant program. Consequently, we believe more needs to be done to identify the extent, frequency, causes of, and solutions to identified problems.

CONCLUSIONS

HUD has responded to identified weaknesses in its monitoring of block grant recipients by making several changes in its monitoring system during the past 2 years. These changes appear promising in responding to past deficiencies, but their success is contingent on how well the new procedures are actually implemented. These procedures had not been in effect long enough for us to fully determine their impact on solving past problems.

While controls over grantee expenditures were not part of our review, we felt that the number and magnitude of these types of problems which came to our attention during our work necessitated including this issue in this report. We noted that audits of grantees by HUD's IG, IPAs, and city comptrollers, as well as HUD's selected-city briefings, have identified weaknesses in grantees' controls over block grant expenditures. The frequency of

such problems at the grantee level and, more importantly, the identification of basic causes of the problems and the solutions to them are questions which have not been answered by HUD or its IG or us. Consequently, we cannot make recommendations on how to solve this potentially serious problem at this time.

Nevertheless, we are concerned that these deficiencies could be pervasive. The administration has recently focused on eliminating fraud, abuse, and waste. We believe there is a need to identify, on a current basis, the extent and scope of problems in grantees' controls over expenditures. If such problems are found to be occurring to a substantial degree, we believe that a full-scale review should be conducted to identify the basic causes of these problems and solutions to them. This analysis is needed, in our opinion, to minimize the potential for fraud, abuse, and waste and to maximize the impact of available resources.

We believe the analysis of the extent, causes, and solutions to problems in grantees' controls over expenditures should be conducted by HUD's IG in conjunction with his responsibility to describe significant problems, abuses, and deficiencies relating to the operations of HUD, and to make applicable recommendations.

RECOMMENDATION TO THE SECRETARY, HUD

We recommend that the Secretary direct the Inspector General to conduct an analysis to determine the extent of problems in grantees' controls over expenditures of block grant funds and to recommend solutions to these problems. Such an analysis could be performed in two phases. The first phase should assess whether or to what degree such problems continue to exist. The second phase, if warranted, should concentrate on identifying the basic causes of the problems and suggesting corrective actions.

SAMPLE OF

FINANCING TECHNIQUES USED IN COMMUNITY DEVELOPMENT

BLOCK GRANT REHABILITATION ACTIVITIES

Type of assistance	Total
Direct grant	445
Partial grant	245
Direct loan	118
Partial loan	10
Forgivable loan	11
Deferred loan	41
Guaranteed loan	10
Interest subsidy	85
Direct grant + direct loan	50
Direct grant + section 312 loan	20
Direct grant + deferred loan	15
Direct grant + private loan	15
Direct grant + interest subsidy	1
Direct grant + deferred loan + private loan	2
Direct grant + direct loan + deferred loan	2
Direct grant + direct loan + interest subsidy	2
Partial grant + private loan (homeowner funds)	4
Direct loan + deferred loan	8
Direct loan + forgivable loan	7
Direct loan + section 312 loan	2
Direct loan + State or other public loans	1

APPENDIX I

Type of assistance	Total
Forgivable loan + interest subsidy	1
Deferred loan + private loan	1
Interest subsidy + homeowner funds	1
Not determined	22
Total	1,119

Source: HUD IG's "Report on Special Operational Survey, CDBG Rehabilitation Activities," November 7, 1980.

APPENDIX II

SAMPLE OF

ADMINISTRATIVE WEAKNESSES IDENTIFIED BY HUD's INSPECTOR GENERAL

Weakness	Percent of grantees having weaknesses
1. Grantee did not always make or document initial property inspection.	22
2. Grantee did not always prepare work writeups.	16
3. Grantee prepared vague and unclear writeups.	52
4. Grantee did not always prepare cost estimates.	50
5. Grantee did not encourage open and free competition in awarding contracts:	31
a) did not require or document files to show they obtained more than one bid	
b) did not award contracts to lowest bidder or prepare a written justification	
c) did not use formal contracts or contract change orders	
d) did not use contractor rotation list in a manner to encourage competition	
Grantees did not make thorough final inspections.	28

Source: HUD IG's "Report on Special Operational Survey, CDBG Rehabilitation Activities," November 7, 1980.

 APPENDIX III

LISTING OF GRANTEES GAO VISITED

Alexandria, Virginia

Aurora, Illinois

Binghamton, New York

Camden, New Jersey

Chicago, Illinois

Elgin, Illinois

Green Bay, Wisconsin

Hennepin County, Minnesota

Knoxville, Tennessee

Minneapolis, Minnesota

Newark, New Jersey

Poughkeepsie, New York

Rochester, New York

San Diego, California

White Plains, New York

(384800)